OVERSIGHT OF THE HOME LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

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OVERSIGHT OF THE HOME LOAN GUARANTY PROGRAM

Thursday, May 11, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to other business, at 9:54 a.m., in room 334, Cannon House Office Building, Hon. Harley O. Staggers, Jr. (chairman of the subcommittee) presiding.

Present: Representatives Staggers, Jones, Rowland of Georgia, Harris, Payne, Parker, Burton, Smith of New Hampshire, and Paxon.

OPENING STATEMENT OF CHAIRMAN STAGGERS

Mr. STAGGERS. The subcommittee will come to order.

This morning's hearing will focus on the servicing of guaranteed home loans, VA foreclosure property acquisitions, and subsequent management.

When a loan goes into default, both the lender and the Department of Veterans Affairs should try to assist the borrower in bringing delinquent payments up to date. This process of helping the borrower is called loan servicing.

Although the Department of Veterans Affairs has some excellent guidelines in place, lack of personnel has resulted in minimal servicing of delinquent home loans. It is sometimes easier just to process foreclosure paperwork than to try to contact the veteran to see if something can be worked out.

High foreclosure levels continue to be a major challenge. GAO has repeatedly testified before the committee that intensive and timely servicing of defaults reduces foreclosures and subsequent claims and property management expenses. A recent study issued by the Inspector General reiterates these findings.

It is estimated that a 2-percent increase in the cure ratio could generate $56 million in savings, far offsetting the cost for additional FTEE. Additionally, an increase in the number of persons employed in the property management function would result in reduced holding times for acquired properties and higher prices. If the average selling price increased by 1.5 percent, DVA estimates that this would generate an additional $26 million in revenue to the Loan Guaranty Revolving Fund. What this means is that the addition of 248 FTEE at a cost of $9.5 million would generate $82 million in savings.

What we have done is to bring in loan guaranty officers from the field to answer any questions you may have on their experiences with the program. We have loan guaranty officers from Houston, Denver and Cleveland. Houston has a servicing pilot program in place and the results are outstanding. They have also undertaken many initiatives in regard to property management and sales.

Since Denver is also experiencing many problems, I thought we should hear from them about some of those problems. Cleveland has been called in because, in addition to doing their own supplemental servicing, they have performed some supplemental servicing for the Washington Regional Office.

Other issues which will be discussed are certain expiring programs such as the vendee loans for property rehabilitation purposes and the selling of discounted properties for homeless veterans.

(The prepared statement of Chairman Staggers appears on p. 35.)

Mr. STAGGERS. Before I call up the first panel of witnesses, I would like to recognize my colleague, the honorable Dan Burton of Indiana.

Mr. BURTON. Thank you, Mr. Chairman.

I would just like to say that if this will save us some money and streamline the process, then I'm all for it. I look forward to listening to our witnesses.

Mr. STAGGERS. We should have a good panel. I thank the gentleman.

Is there anyone else who has any comments? Mr. Jones?

Mr. JONES. Thank you, Mr. Chairman.

Mr. Chairman, the home loan program administered by the Department of Veterans Affairs has assisted over 13 million veterans in achieving the American dream of home ownership. In the Fourth Congressional District of Georgia, which I represent, there have been over 96,000 VA home loans since the program began in 1944. The total amount of these loans approaches $2.5 billion. For the first 6 months of 1989, there have been close to 500 VA home loans worth $37 million made to veterans in the Fourth District of Georgia. This important program makes home ownership possible for the thousands of veterans in my district, as well as millions of veterans across this country. Because of its importance to veterans, we all have a great deal of interest in ways to improve the program.

Although I must attend another meeting this morning, I look forward to the helpful suggestions and comments of the loan guaranty officers, as well as the testimony from the other interested groups appearing before the subcommittee. I thank you all very much for being with us this morning.

Thank you, Mr. Chairman.

Mr. STAGGERS. Thank you, Mr. Jones.

The first panel will be made up of the Department of Veterans Affairs, Mr. Vogel, Mr. Pedigo, Mike McReaken, Julius Williams and Thomas Vickroy. Your statements will be included in the record, without objection. Without objection, all witnesses statements will be included in the record in whole, so any witness may feel free to summarize.

With that, I will ask Mr. Vogel to present his statement.

STATEMENT OF R. J. VOGEL, CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS; ACCOMPANIED BY KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE; MIKE MCREAKEN, LOAN GUARANTY OFFICER, HOUSTON, TX; JULIUS WILLIAMS, LOAN GUARANTY OFFICER, DENVER, CO; AND THOMAS VICKROY, LOAN GUARANTY OFFICER, CLEVELAND, OH

Mr. VOGEL. Thank you, Mr. Chairman. I have a summary statement. None of the others with me have statements, but we all are prepared to respond to any questions you or the members of the subcommittee may have.

I would like to first bring you up to date a little bit on the Loan Guaranty Program. Right now it is fairly stable. The current interest rate is 10.5 percent, and it has been in effect now since December 19, 1988.

During calendar year 1988, we guaranteed 211,000 loans, which is down from 1987 when we guaranteed 455,600 loans. Nineteen eighty-seven was a record year due to the large number of refinancing loans. Eighty percent of the acquisition loans guaranteed in 1988 were made without a downpayment.

Since 1944, we have assisted, as Mr. Jones pointed out, nearly 13 million veterans to obtain housing. Mortgage credit totaling over $322 billion has been allocated to veterans, and over $135 billion worth of those loans have been repaid as of last year.

I would like to talk a little bit about the servicing, property management, and property acquisition aspects of the program.

Recent experience with defaults is encouraging. During the last 3 months, defaults reported fell 8 percent from the same period of 1988. Defaults pending at the end of March, 1989 are nearly 5 percent fewer than the number of pending as of that same month last year. Each of the last four quarters have shown a reduction in defaults reported and pending when compared to the corresponding quarters a year earlier.

Foreclosures fell at a greater rate than defaults. For the quarter ending March 31, 10,500 foreclosures were completed. That is substantially fewer than the nearly 12,000 completed in the same quarter of 1988, a decline of about 12 percent. Foreclosure activity remains concentrated in the Southwest.

Once a default is reported to the VA, efforts are made to contact each delinquent home owner to provide VA supplemental servicing assistance to avoid foreclosure. We closely review the holder's servicing of the account and follow up by attempting to contact the borrower. Once contact has been established, VA personnel may offer financial counseling. They can intercede with the holder on behalf of the veteran. We also are in contact with local agencies to assist borrowers. Delinquent borrowers are given the phone numbers and addresses of agencies so that they can apply for benefits which may be helpful to them.

If no arrangements are made for reinstatement, we require that foreclosure procedures cannot be started for 30 days, during which VA again tries to service the loan. Even after foreclosure is initiated, supplemental servicing continues.

VA considers whether refunding is in the best interest of the veteran and the Government in every case before foreclosure. When

we refund a loan, it may be reamortized to eliminate a delinquency and the interest rate may be reduced up to 3 percent below the maximum rate for new VA loans in order to lower the monthly installment payments.

When a borrower has no realistic prospects for maintaining mortgage payments, we encourage a private sale of the home to avoid foreclosure. We may be able to offer assistance by using a procedure which enables us to compromise a loan guaranty claim. If the proceeds of the sale are applied to the existing indebtedness, a compromise agreement may enable the VA to pay a claim for the difference between the sale price and the loan indebtedness.

We consider approving acceptance of a deed in lieu of foreclosure if acceptance of the deed is in the best interest of the borrower and the VA. When all servicing is to no avail, termination on the loan is the responsibility of the holder. We may establish a cut-off date for the accrual of interest and expenses if foreclosure is unduly delayed. That limits the liability of the VA and the indebtedness of the veteran. VA requires that the account be credited with the net value of the property, except in no-bid cases, where a maximum guaranty claim is payable and VA will not acquire the property after foreclosure.

Additional resources made available to VA for supplemental servicing have been concentrated in our Houston office. A pilot servicing project was set up in August of 1988. Ten additional personnel were dedicated to that supplemental servicing. They work an irregular tour of duty, which increases the likelihood of their being able to contact veteran home owners.

Preliminary statistics indicate that it has been successful. The number of personal contacts is 176 percent higher than in the same 8-months a year earlier. A comparison of defaults cured in the first two quarters of 1989 with the same two quarters of 1988 shows the cures increased by 43 percent. Foreclosures completed dropped slightly, and since the average time from receipt of a notice of default to completion of foreclosure is approximately 9 months, it is still too soon to expect a noticeable impact in that area. The final analysis will show whether VA supplemental servicing provides a tangible benefit to the veterans and is cost effective for the Government.

In January we notified the committee of our intention to include holding costs in the property acquisition decision process. Including the Government's cost of borrowing funds will more realistically reflect the true cost to the Government. This policy change has been recommended by the VA's Office of Inspector General and the GAO. A proposed regulation was published for comment on March 31, and we expect to have the final regulation out by the end of July.

With respect to legislation scheduled to expire, we favor the retention of the provision which establishes the no-bid formula.

I would like to turn now to the property management area for a moment. Sales activity reached a record high in 1988, when 40,600 properties were sold. Sales outpaced acquisitions during that year by 5 percent. In the first 6 months of 1989, we expect that sales will exceed acquisitions by 17 percent. We have steadily reduced the inventory from over 25,000 to 18,500 properties by the end of

March. We attribute that, in part, to favorable economic conditions, but the achievements also are attributable to a number of managerial initiatives taken by the VA.

The depressed real estate markets in Texas and Colorado continue to dominate our property management activities. Houston sales equaled 21 percent of total U.S. sales, and Denver and Waco together constituted about 8.5 percent. During the first 6 months of this fiscal year, those offices sold about 60 percent more properties than they acquired.

Our property inventory is a lot higher than I would like it to be, but I think we can be proud of the progressive strides that we have made. We remain committed to a maximum sales effort to reduce our need for appropriations.

In 1988, we sold 21,140 properties with financing provided by VA. The 1-percent funding fee yielded $7 million. The funding fees collected on loans guaranteed in 1988 provided over $128 million. We believe the authority to collect the funding fees, which expires on September 30, should be extended.

The homeless program, authorized by Public Law 100–198, has been of limited success, in large measure because the people involved in the sheltering of homeless individuals either don't have the assets to purchase the properties, or they tend to look for multiunit structures as opposed to single family dwellings. Our property may not be clustered in the areas where homeless congregate or where they're typically found, or they don't have the authority, frankly, to purchase homes under whatever charter they operate under. We believe that we have implemented Public Law 100–198 in accordance with congressional intent.

The rehabilitation program, implemented in May of last year, provides new home owners the ability to rehabilitate damaged properties by financing the amount needed to carry out the rehabilitation. We believe that the program should be a permanent technique to be used in marketing acquired properties.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions that you or other members of the subcommittee may have.

[The prepared statement of Mr. Vogel appears at p. 39.]

Mr. STAGGERS. Thank you for your testimony.

I'm going to do something unique. I'm going to yield my time to Mr. Parker, who has to leave. I will yield my five minutes to Mr. Parker.

Mr. PARKER. Thank you, Mr. Chairman. I appreciate it. I have to go to another meeting, but I first wanted to touch base with Mr. McReaken.

You have the pilot program in Houston right now.

Mr. MCREAKEN. Right.

Mr. PARKER. When I went down and visited, we talked at length about some things that had improved the system that you have at this point.

One of the problems that is facing every regional office is that they are not getting to the problem of foreclosures as soon as they should. The later you get to a problem, the worse it's going to be. People get behind in their payments, and by the time that you contact them, you wind up in a situation where they can't come back

and work with you and wind up having to renegotiate a loan or whatever. Most of these people we're dealing with are on an income basis where they can't come up with an additional $1,000 or $1,200 just to pay off all of a sudden.

In our discussions in Houston, Mike, the entire staff made comments that if they could get to them faster, it would help. It is going to cost more money in order to get more people on line, but how important do you think it is to add more employees in order to be able to get to these problem cases earlier, so that we can save money in the long run and save on these foreclosures?

Mr. MCREAKEN. Well, with the additional 10 staffing that we received from Central Office, and our own staff, combined for a total of 20 loan service reps that we've dedicated strictly to supplemental servicing on the GI loans, just in this 8-month period, by going out and contacting the delinquent borrowers, we have made a significant decrease in our acquisition of properties, as well as receiving fewer mortgage claims.

Getting in touch with the borrowers as soon as possible really is of primary importance. The more people we have that can reach these borrowers, at the times that are convenient to the borrowers—evening hours, weekend hours—gives us a better opportunity to salvage that loan.

Mr. PARKER. I would like Mr. Williams and Mr. Vickroy to respond to that also, because you're sitting in the same situation. Do you find that true, also, that you need more people in order to touch these people, to talk with them about the problems they're having, and try to solve the problem before it gets to the point where it's insolvable?

Mr. WILLIAMS. I certainly find that to be the fact in Denver. I look with envy at Mr. McReaken and his pilot program. During the year, I found myself with a ratio of loan service reps to defaults of 1 to 1,800. Clearly, when you're in that type of situation, it is very difficult to get to the borrower early on in the game, early enough to help him get the problem taken care of.

I think there are two aspects. One thing, you have to get to the borrower while there are options available, such as possibly refinancing or making a repayment plan. But the other thing is, you have to get there early enough so that if they are going to lose their home, which is the situation we have especially in Wyoming, where there is no income, then you have to look for alternatives such as deed in lieu of foreclosure, or you have to look at compromise situations. There you want to minimize the impact of losing the home on the veteran's ability to reestablish himself somewhere else in a better situation.

Mr. VICKROY. I will try to respond in a like manner.

In Ohio we have been fairly successful and our foreclosures have turned the corner and we're having less. We insist on proper servicing of the loan. That means that our loan service reps are fairly well trained and can talk to the veteran borrower about all of his options.

But you're correct, that in any servicing situation, if you can get to them early enough, you have that much more of a chance of curing the default early in the game, rather than going through full foreclosure.

We have been tracking whether or not we've been successful in intervening on the veteran's behalf with the loan holder. There are times when the loan holders do not do a terrifically good job. They're supposed to do the primary servicing and we are simply to piggyback or do supplemental servicing on his behalf. We have been able to track this since September of last year and we have been successful in 106 cases in Ohio, in intervening on the veteran's behalf. This is where the loan has been brought fully current. The money saved totals $2.25 million.

If we had eight reps working on those cases in the loan servicing division, each rep could save the Government approximately $280,000.

Mr. PARKER. That's the point that I think is important for this committee to understand and for the Veterans' Administration to understand.

Granted, we're going to have to spend some more money to put some more people in there, but it is a cost saving device. If we don't, we're going to lose the money. The money is going to be lost unless we get out there and do it.

From a business standpoint, any businessman would do that, because he knows he's going down the tubes if he doesn't. The problem is, in a Federal bureaucracy, we wind up in a situation where if it goes down the tubes, the taxpayer is just going to foot the bill. That is the problem that we've got right now, and we've been willing to let that go in the past. I think it's very important that we do add people to touch the veteran out there who's got that loan and help him, just like Mr. Williams said, when he's got some options. Because if we wait too long, he doesn't have any options. He's got to get out. It's just that simple. I think that's very important and I appreciate the input.

I think emphasis needs to be placed from that standpoint. I really think it's very important. If we don't, we're never going to manage the system like it should be. Thank you very much.

Thank you, Mr. Chairman.

Mr. STAGGERS. The gentleman's time has expired.

The gentleman from Indiana.

Mr. BURTON. Thank you, Mr. Chairman.

How many new employees would have to be hired to bring this problem under control? I'm talking about in both areas. As I understand it, the number of properties that are managed in the private sector is what, 95 to 1, and you're 200 to 1, in the area of property management. How many employees would you have to hire? You said you're servicing 1,800 with one employee?

Mr. WILLIAMS. That was the ratio that I found myself with.

Mr. BURTON. How many employees would you have to hire to more adequately—

Mr. WILLIAMS. For both programs, we estimated we would need about 28 more employees in the Denver Regional Office. That includes both the property management side and the loan servicing side.

Mr. BURTON. What about nationwide? Do you have any nationwide figures?

Mr. VOGEL. I do, Mr. Burton. We estimate that if we had about 175 or so more personnel in the servicing loan portion and about 50

in the property management area, that we could, in fact, get a yield far greater than the amount of salary and fringe we would be expending on those individuals. You're talking somewhere in the neighborhood of 225 employees.

Mr. BURTON. According to your testimony, that would be cost effective and would save a heck of a lot more money than we're going to expend?

Mr. VOGEL. We believe that so strongly that we're prepared to compute about a 2-percent improvement in defaults, to take a sum of money equivalent to about $50 million to $60 million out of what we estimate our funding needs are from the appropriations standpoint.

Mr. BURTON. According to the testimony, you have about 18,500 vacant houses now.

Mr. VOGEL. Yes, sir.

Mr. BURTON. Before I came to Congress, I was in the real estate business and we occasionally dealt with the Veterans' Administration in selling some of those houses. Many times, we would go out there and you had a bid price which you had to have at least so high, and if it wasn't that high, the house continued to sit there. We found houses that were vandalized to such an extent that they were not saleable any more. Someone would go in and burn them, strip the copper tubing out of the walls, take the plumbing.

I just wonder, are you still experiencing this kind of a problem, and if so, what can be done to expedite the resale of these homes as quickly as possible so that this kind of loss to the VA doesn't continue to occur?

Mr. VOGEL. We still experience that. It's largely due to the ratios of properties per property management specialist. We enter into contractual arrangements with the management brokers to maintain the properties and secure them, and to see that repairs are made. We simply can't get around and cover all the properties.

Mr. BURTON. What is the average length of time that one sits before it's sold?

Mr. VOGEL. Of course, it varies from market to market.

Mr. BURTON. Well, the average.

Mr. VOGEL. Almost 7 months is the national average.

Mr. BURTON. This is a problem, and we all want to see foreclosures minimized. We also want to see veterans have every opportunity to keep their houses. That's why I think it's important that you have these additional personnel to assist them in any way they can.

But if a house is going into foreclosure, and you have 18,500 of them, it seems that there ought to be a way to expedite the resale of that property quicker than 7 months. Because if they sit there for 7 months, even if you board them up, you're going to have a substantial number of them vandalized.

Being a realtor, I know that if the real estate industry is made aware that you're going to expedite the sale of those, they will help you get them sold because they're anxious to make money. That's always an inducement to work hard. So it just seems to me there ought to be some attempt made to preserve the assets of the United States of America, i.e, these 18,500 homes, and the way to

do that is to expedite the sale of those in a much more expeditious manner. If you let them sit 7 months, you're going to lose.

What percentage do you lose in that period of time?

Mr. VOGEL. The average loss nationally is $19,000.

Mr. BURTON. I know, but how many homes do you lose in a year's time as a result of vandalism, do you know?

Mr. VOGEL. I don't have that number, Mr. Burton.

Mr. BURTON. Could you get that for me? I would like to have that for the record because, if it's 10 percent, you're losing 1,850 homes, and if it's 20 percent, that's 3,700 homes. You put a pencil to that and you're up into the millions and millions of dollars. So I would like to know that, and also, if there's any kind of a program to expedite the resale in a little quicker fashion.

(Subsequently, the Department of Veterans Affairs submitted the following information:)

VA does not maintain records of the numbers of properties which have been damaged as a result of vandalism. At one time, we maintained records of property expenses by type of expense. These categories of expenses included initial repairs made to properties, repairs made at VA's expense after properties are sold, routine maintenance and repairs necessary to preserve properties, and repairs made to restore properties in cases of destruction. While this latter category included restoration of properties which were damaged by vandals, it also included repairs which were made as a result of damage caused by fire, windstorms, floods, or other hazards. Dollar entries in this category included expenditures for any repairs made as a result of destruction.

Loan Guaranty field personnel no longer segregate repair costs by category. They are instead categorized as capital or non-capital expenses. Even if the old system were still maintained, costs for repairs made as a result of vandalism to properties would not be a separate entry within the category of "repairs necessitated by destruction".

Holding time is the number of months between acquisition of title and sales closing. In our property sales program, the average holding time has been reduced 33.3 percent since the end of fiscal year 1984. However, "holding time" may not be the most accurate expression for this time interval because it implies that VA may be consciously "holding-on" to a property awaiting some "best possible" offer, while the property is allowed to "sit." This is not an accurate implication. The holding time includes the time required for processing a loan application to the point of approval and scheduling and conducting a sales closing. These two processes, familiar to almost all individual sellers of residential real estate, may require 2 months or more of holding time. Other events which may be included in holding time are gaining possession from adverse occupants and completion of repairs to promote marketability. The actual time that a property is publicly listed for sale may be as little as 3 or 4 weeks of the holding time. Even while the property is exposed to the market, stations will continue their marketing efforts, including making periodic price reductions to induce buyer interest when appropriate.

We will continue to make efforts to further reduce our average holding time by minimizing delays caused by heavy demands on this paperwork-intensive process. Currently, the production of documents and routine correspondence associated with repair contracting, property marketing, credit underwriting and sale closing is accomplished through manual and ADP systems which are separate from property tracking and other recordkeping. The proposed Loan Production System (LPS), which will link production with recordkeeping, is expected to speed internal processes associated with property acquisition, marketing and sale. Additionally, LPS is being designed to generate routine correspondence from VA field offices to program participants, including real estate brokers, prospective purchasers, repair contractors, tax authorities and other local government units.

In attempting to speed up disposition, we are mindful that speed is not the only goal. When a seller needs to dispose of real estate relatively quickly, the seller often needs to be willing to accept a lower sales price to promote a prompt sale. On the other hand, a seller seeking to obtain the highest price must usually be prepared to wait somewhat longer to attract the top price. In selling acquired properties, VA continues to maintain a commitment to the principal objective of the property sales program: the maximum recovery of the value of these real estate assets within a

reasonable time. In pursuing this objective, we believe that an optimal balance of speed with cost recovery will serve to minimize the need for congressional appropriations to the Loan Guaranty Revolving Fund.

Mr. VOGEL. Mr. Burton, you make a point that I would like to comment on, if I may.

Of course, it is in everybody's best interest to get the property sold at the best price. We work very well, I think, with the local boards of realtors. We have advisory groups that are assisting us in determining the best method of marketing. Closed bids are used widely in Denver and in Muskogee and in Houston. We listen carefully to those folks. As you point out, they can make some money and it's a win-win situation for all parties.

Mr. BURTON. Seven months is too long, Mr. Vogel.

Mr. VOGEL. I quite agree.

Mr. BURTON. It seems to me, once the foreclosure is completed, I would think within 90 days, if you had them priced properly, had your minimum price proper, if you had the real estate industry and individuals involved in the process, you could get those things sold. If you did that, I think you would save a lot of taxpayers dollars. I would like to have additional information on that.

I think my time is up, Mr. Chairman. Thank you.

Mr. STAGGERS. Mr. Harris.

Mr. HARRIS. Thank you, Mr. Chairman.

Of course, we talked about this, Mr. Vogel, just a few months ago. I was just wondering, since the focus has really been on the problem of foreclosures and defaults, how many employees have been transferred to the three or four areas where it seems like we're having the greatest problem?

Mr. VOGEL. We have diverted employees from the origination end of the business, and from the construction and valuation portion. The regional office directors have also taken whatever resources they had available from the other component parts of the regional office such as adjudication divisions, and put them into this area to the extent we can do it.

Mr. Pedigo has some numbers to put on these general comments, Mr. Harris.

Mr. PEDIGO. Mr. Harris, we have done an analysis recently going back to 1984 up to the present, tracking where the personnel are in the Loan Guaranty Divisions around the country. What we have found is what we had hoped we would find; that is, during periods of low interest rates, when we have a lot of loan originations, we find that personnel are diverted to the origination end of the program where the benefit is delivered to the veteran. But when interest rates rise , those personnel are being shifted to what we call the back end of the program, the servicing and property management functions.

To give you an example, in 1986 and 1987, when we had low interest rates and guaranteed 479,000 loans, which was a near record, 44 percent of the personnel in the Loan Guaranty Divisions across the county were in the origination end of the program. As interest rates increased in 1988 and 1989, that shifted to the point where we now have only 38 percent of our employees in the origination end of the program and over 60 percent of them are in the servicing and property management end of the program. So we do

shift personnel when we are able to in order to address the most pressing problems in the program.

Mr. HARRIS. Well, you had fewer loans in 1988 than you had in 1987, isn't that right?

Mr. PEDIGO. That's correct.

Mr. HARRIS. My question was—and I don't know whether you answered it or not—how many employees had been transferred from the front end to the back end in these particular areas where we had the largest number of foreclosures.

Mr. PEDIGO. I can't give you raw numbers. I only have the percentage figures. But we would be happy to convert the percentage figures to raw numbers and get back to you on that.

(Subsequently, the Department of Veterans Affairs submitted the following information:)

At the Houston, Waco, and Denver Regional Offices, 25.1 FTEE were shifted from the front end to the back end of the Loan Guaranty Program between September 1987 and September 1988. This was in addition to an overall employment increase of 12.6 FTEE for the three stations. Therefore, a total of an additional 37.7 FTEE were assigned to the Loan Service and Claims and Property Management Functions during this period.

Mr. HARRIS. What kind of training program do you have in place for your officers that deal with the counseling and advising of the veterans who are having problems with their loans?

Mr. PEDIGO. Mr. Harris, until fairly recently, most of our training was on-the-job. However, this year we embarked on a program of providing formal training to technicians who come into the program in the servicing area, as well as our property management area. We are going to have three training sessions in the last quarter of this fiscal year for loan service and claims representatives who have been employed at the VA for 5 years or less. It will be a one-week, intensive training session, where we will go over the various techniques of servicing loans and some of the other information that they will need in order to properly service delinquent loans.

Also this year we're going to have training for our appraisers. At the beginning of next fiscal year, the property management technicians will be trained, as well as our loan processing technicians. In March of this year, in Atlanta, we had a one-week training session for the chiefs of our loan service and claims sections around the country, and we think that was very productive. Our intention is to formalize training in the outyears in an effort to get away from the on-the-job type of training that we've done in the past which, while somewhat effective, does not cover all the bases that we think need to be covered.

Mr. HARRIS. Let me ask the loan guaranty officers, if you could change one specific thing with the way the loan program operates now, what would it be?

Mr. VICKROY. Well, right now we are finally able to track our successes rather than our failures. In my view, we were very good at counting the number of foreclosures, the number of dollars lost, and we didn't seem to pay too much attention to how much money we could really save. Now we're able to do that and I would like to see that continued.

Mr. HARRIS. Mr. Williams.

Mr. WILLIAMS. I believe from my perspective, the one thing I would change is I would increase my staffing to be able to address the servicing needs that we have in the States of Colorado and Wyoming.

Mr. HARRIS. Mr. McReaken.

Mr. MCREAKEN. I would have to echo that, too, because even though we've reduced a large number of our pending defaults, we still have a long ways to go. We're finding that a lot of our employees that we're hiring in the servicing areas were hired off the street because they lost their job due to the failure or merger of a savings and loan, or a mortgage company. We're getting some good experience, but we just need more of it.

Mr. HARRIS. Thank you.

Thank you, Mr. Chairman.

Mr. STAGGERS. The gentleman's time has expired.

The good news is, I'm the last questioner. The bad news is, I've got a lot of questions.

Mr. Vogel, some areas of the county barely participate in the Loan Guaranty Program. Can you tell me why?

Mr. VOGEL. In some areas of the country we're essentially out of the market. The cost of real estate is so high, especially in places like Massachusetts and Connecticut, and the area in and around San Francisco, that the amount of the VA guarantee will not cover the loan amount. We're just out of the market and are not attractive.

The large volume areas are where the guarantee is sufficiently attractive to cause lenders to make the loans. That's really the long and short of it. Some of it can be keyed to the ability of the people like these three loan guaranty officers and others, to make the buying veteran public as well as the realtors and the lenders acquainted with our program. Part of it is the sell job.

Maybe these gentlemen or Mr. Pedigo would like to add something to that.

Mr. PEDIGO. I would just add a little bit to what Mr. Vogel said.

On the lenders perception that they can make loans and be sufficiently protected as a result of the VA's guaranty in high-cost areas, with a maximum guaranty of $36,000, lenders are generally looking for a 25 percent equity position, either in the form of a guaranty or a combination of guaranty and downpayment.

In areas like New York City, Boston and California, the typically priced home is in excess of what our guaranty can reach. In addition, there is another restriction, and that is that the Government National Mortgage Association, Ginnie Mae, which pools the majority of VA loans, has a limitation of $144,000 on a VA loan that can go into a pool. The average loan, nationwide, is around $75,000. So for the typical veteran, that is not a serious limitation. But for those living in high-cost areas, $144,000 frequently does not buy a modest home. So there is a problem and it's primarily related to the high-cost areas.

Mr. STAGGERS. I think you're right with certain areas, but in some of the smaller areas, I'm not sure. My second question would be, how often does the Department generate publicity, put on seminars, bring these people in? Is this just a general campaign type of effort? Number one, do you do it, and how often do you do it?

Mr. VOGEL. We do it. When we're faced with an enormous volume, as we had in 1987, with the originations, and then from that point and before, there is a terrific amount of work to be done in servicing and property management. You tend to stay home and try to put the fire out and you don't go out and do that sort of thing. You don't have the training or the servicing because it gets to be a nice thing to do rather than something that is marked up as essential to do.

Mr. STAGGERS. I can understand that.

Mr. PEDIGO. If I could add to that, all of the manuals that we provide to our field stations require outreach work with our program participants on an ongoing basis. I think the three gentlemen from our field stations can probably tell you that they do, in fact, follow the dictates of those manuals and frequently meet with lenders, brokers, appraisers, builders, the clientele that we deal with in an effort to make this program viable.

Mr. STAGGERS. Since the Houston pilot has been so successful, what are your plans for extending it, since it expires in July?

Mr. VOGEL. We plan to continue to do that to the extent we have resources available, and to apply it in other regional offices, especially those where there is such a crying need for additional servicing, such as in Denver and Oklahoma and other places. What we need is the personnel to do it.

There are not additional resources available within the Veterans Benefits Administration to divert in any great numbers and still keep any Loan Guaranty Program presence there. In of the New England States and areas where the volume is comparatively low, to run the program we have to keep them minimally staffed and can't divert them. We would like to get the loan servicing program extended.

We did the pilot to demonstrate to some folks that were skeptical about it that it does, in fact, pay off. We now have empirical hard data and expect to go through the subsequent budget processes armed with that information and get some support for it, because it pays off. It pays off big time.

Mr. STAGGERS. So your expansion into other regional offices will be dependent upon additional resources?

Mr. VOGEL. Yes, sir.

Mr. STAGGERS. You state that out of the 17,081 properties you financed last year, 41 additional loans were generated for property repairs. Can you tell me why there was so few? That seems a little bit low.

Mr. VOGEL. I think that's probably a reflection, Mr. Chairman, of having to get the word out, to have it understood that it's available. We think it works. The people who participated like it and we think it will pick up over time. But it probably is slow because of start up.

Mr. STAGGERS. Let me ask another question. Was that spread out or was it concentrated in certain areas?

Mr. VOGEL. I think it was across the country, sir. Probably proportionally a little bit more where you have more properties available for sale. But proportional to that, it was across the country.

Mr. PEDIGO. We believe it is picking up in strength. By the time we got the instructions out to our field stations, it was late spring

of 1988. So the 41 loans reflect a period when we were attempting to get the word out to all of our program participants.

I think that if we look at the figures 6 months from now, we will see that it has increased fairly dramatically. There are indications that it's picking up in popularity.

Mr. STAGGERS. Another problem, I sort of wear two hats, since I'm sitting on the Judiciary Committee also—and that's equity skimming. There doesn't seem to be a whole lot done in the last couple of years since some former chairmen have held hearings. Is that still a major problem, equity skimming?

Mr. VOGEL. I don't know if I would call it a major problem. It's a phenomenon one sees in both the VA program, the FHA program, and frankly, probably with conventionals as well. Where it is revealed to us and we know of it—we caution veterans about that by the use of fliers and other instructional devices.

When we detect it, we typically detect it ourselves, or others do, and we vigorously pursue those cases through the justice system, if necessary.

Mr. STAGGERS. Is Justice always cooperative?

Mr. VOGEL. I think they would be cooperative if they saw a payoff. Frankly, when you look at the Department of Justice and United States Attorneys, in places like Miami and along the Texas border, so much of their efforts are expended on drug interdiction and prosecution and that sort of thing that things like this probably fall down on their list of things they have to do.

Mr. STAGGERS. My concern is that if there's a stated rule that we're not going to prosecute it unless it's above a certain amount or a certain limit. If I'm this guy who's out there skimming, I going to know that I can go right up to the brink before I'm going to get in trouble. That concerns me.

Mr. PEDIGO. No, I'm not aware of any arbitrary limit—

Mr. STAGGERS. I'm talking Justice.

Mr. PEDIGO. Justice, yes. Well, I think you're probably correct. Justice, in my personal experience, has a tendency to look at the payback on prosecution. If it's a small amount of money that the Government has been defrauded out of, then I think there is generally—and this is an opinion, there is generally a tendency for Justice not to want to devote a lot of resources to prosecuting that type of case.

Mr. VOGEL. I can tell you, Mr. Staggers, we have no threshold ourselves.

Mr. STAGGERS. I realize that.

Mr. VOGEL. We will refer them all, typically the routine matters, through our Inspector General and his staff, which endeavor to convince the Justice folks that it's worthy of their interest.

Mr. STAGGERS. I would be interested in hearing from Mr. Williams. With the workload that you have, I would imagine you may not even have an idea of the number of people that might be affected by equity skimming.

Mr. WILLIAMS. Well, it does crop up from time to time, but again, I don't think there's been a real severe or prominent problem. Like Mr. Vogel said, when it does, we refer all of those cases to the Justice Department or to our Inspector General's office to investigate. But I have not seen an overwhelming problem.

Mr. STAGGERS. Mr. Vogel, in the Mortgage Bankers' statement that they will talk about later in the hearing, they express their concern that HUD direct endorsement lender staff appraisers are no longer acceptable to you all. Since these were acceptable for the last 5 years, can you explain why you are changing this criteria?

Mr. VOGEL. I would ask Mr. Pedigo to respond to that, Mr. Chairman.

Mr. PEDIGO. Mr. Chairman, we have always had a policy of assigning appraisals from our fee panel on a rotational basis. When HUD went to their direct endorsement program in 1983, they initially implemented that program using appraisers from their fee panel. Those appraisers were assigned on a rotational basis, so there was no inconsistency between our policy and theirs at that time.

They then changed their policy to permit certain lenders to use their own staff appraisers—that is, appraisers employed by the lender to do appraisals. That changed the complexion of the situation somewhat. But shortly after that, in 1986, legislation was passed which impacted on our program, and that legislation codified our long-standing requirement of assigning appraisals on a rotational basis.

We did not realize when that law was passed that there was an inconsistency between our requirement to assign appraisers on a rotational basis and the change in the HUD policy of not always using appraisers that are assigned on a rotational basis. So when this was brought to our attention from one of our staff members about 6 to 8 weeks ago, we asked our General Counsel for an opinion. Essentially, we asked them if it was permissible for a lender's staff appraiser, who is not assigned on a rotational basis, to do an appraisal under the FHA direct endorsement program that could then be converted to a VA-CRV. Our General Counsel told us that that violated the law that was passed requiring us to only use appraisals done by an appraiser assigned on a rotational basis.

As a result of that opinion, we put out a directive that our field stations could not accept for conversion those HUD appraisals that were done by lender staff appraisers.

Mr. STAGGERS. I yield to the gentleman from Alabama, Mr. Harris, for as much time as he needs. I've been asking questions for a while.

Mr. HARRIS. Thank you, Mr. Chairman.

Mr. Vogel, as I understand it, the Veterans' Administration does not authorize the adjustable rate mortgage.

Mr. VOGEL. That is correct, Mr. Harris.

Mr. HARRIS. What is the basis for not doing what has been a commonplace transaction in the conventional mortgage market, and also in the Federal Housing Administration?

Mr. VOGEL. Mr. Harris, the original position of the Department of Veterans Affairs when ARMS first appeared in the marketplace was that the ceiling and the general experience was such that we were a little bit afraid of them. The idea that the mortgage payment can increase over a course of time with rising interest rates to the point where the veteran home owner couldn't hold on to his house and would be forced out because of that. We have held to that general position with a maximum fixed rate ever since.

Mr. HARRIS. Is it under a situation of review? Of course, I have one on a condo we bought here in Virginia. I just wonder why this is not another option that could be provided to the veteran if it is something in the short run that may save him a little interest.

Mr. VOGEL. Mr. Harris, I have asked Mr. Pedigo and his staff to devise for me or to draft for me a proposal for an adjustable rate mortgage package. We can certainly learn from the experience of ARMS, or I believe we can. They haven't yet given it to me, but it's something that, as managers of the program, we're obligated to look at. If we think it can be designed in a way to provide veteran home ownership and protect the interests of the Government at the same time, we will offer it for consideration of the Congress, since the fixed rate is provided by law.

Mr. HARRIS. Thank you, Mr. Chairman.

Mr. STAGGERS. I would reclaim my time and turn my attention to Mr. Williams.

I'm concerned about some of the newspaper reports about Denver being the next Houston. Can you explain exactly what the situation is in Denver?

Mr. WILLIAMS. Well, from the outside I've heard that we have been touted as that. From the inside, I think we're already there. I really think we have a very serious problem. I think with the recent decline in the market, it has made it very difficult for us to dispose of properties. I think that as it levels out—and that's what it's doing right now, I believe; we can expect some success in disposing of our properties.

In our market, where you may have one prospective purchaser for every four houses that are on the market, we're in a very competitive situation. That is one of the reasons that additional staffing is so important, so we can get out and analyze the properties, get them on the market and be competitive with the people who are selling out in the private sector. Certainly if you have an individual home owner who is repairing and making their properties livable and that type of thing, and we don't have the resources to compete on that level, then we are reduced to doing some other types of things, generally adjusting the sale price. When you adjust the sale price on the property, then you put yourself into the investor market, and what you're doing then is reducing the value to meet that market and the investor is looking at what point they can, one, expend the moneys to repair the property, and two, realize a profit. That profit is something that the Veterans' Administration probably should be realizing if we were able to repair the properties and get into that competitive situation.

Mr. STAGGERS. Mr. Vogel, Mr. Williams mentioned the leveling out in Denver. From a national sense, is it much leveling out?

Mr. VOGEL. The default rates and delinquency rates suggest it has leveled out. It may, in fact, be coming up. Hope springs eternal in the hearts of men, and we keep watching Harris County, TX and other places to see what happens. Of course, we've been believing in a rosier scenario for a while in the oil patch areas. I personally keep watching the price of West Texas Intermediate and Louisiana Sweet to see whether or not the domestic oil might bring those economies back and bring employment back.

Mr. McReaken may be able to speak to the Texas oil dependent markets far better than I could as a generalist.

Mr. MCREAKEN. I believe that we have hit the bottom, that we're not going to acquire many more properties. Just during the past 3 years, we had a high of 7,800 properties at one time. Currently we're below 4,500 properties. Probably half of those houses are in the Greater Houston area, where before it was more like 70 percent of acquired houses were in the Houston area, and we're finding that the sales are going up, mostly because of the public bid openings, which is really nothing more than a silent auction, one shot to bid on it. We make the selection process very easy. We look at it the way an individual seller would do: what am I going to net out of that property sale. That's how we decide which one is the winning bid.

We made our information services much more convenient to the real estate community. This is really a key. You have got to make it simple for the real estate salespeople. We have contracted out our information to a computer service, where we merely download the property information that we have in our computer to this outside contract source, and they can turn it around to where you can access it by telephone. A touch-tone phone will give you properties that we have available for sale in any ZIP Code area of our 90 counties, the asking price, the square footage, the bedroom and bath count.

As we're processing the vendee loans on those sales, another touch of the phone button can get that broker or the buyer access to information on the status of this loan processing. Those are some of the things that we found helpful. We continue to do weekly sales seminars. After each bid opening, we continue to have a two-hour training session with any real estate agent or broker or person from the local offices.

Mr. STAGGERS. When the subcommittee was in Houston in March, you indicated that your staff was getting ready to audit one of the major lenders to check out their servicing. What have you found?

Mr. MCREAKEN. We audited "Bank Plus", which is a mortgage company in San Antonio. We did it in conjunction with the Waco Regional Office.

We found basically that that lender is doing a good job of servicing. There were some minor problems, and it was more in the realm of reporting problems to us. Some of their information was maintained in different data sources. They have an extensive ADP set up and the information was not readily available at one point in time, where it would have to be obtained from different sources. They didn't always give us the information that we sought, but overall, they're doing a good job.

I really think that auditing of mortgage servicers should be done on a much more frequent basis. We have only done one. We took it really from Cleveland, who had a model for an audit, and it worked out well.

Mr. STAGGERS. Mr. Williams, getting back to you, you mentioned the ratio of 1 in 1,800, I think you said?

Mr. WILLIAMS. Yes, Mr. Chairman.

Mr. STAGGERS. I guess my question is, how do you service your loans? It would seem like you're just barely keeping your head above water with all the paperwork. How do you do it?

Mr. WILLIAMS. Certainly we have to establish our priorities. In doing that, we screen out the initial default notices to determine those cases where our servicing efforts would be best spent.

I think one of the areas where the limited staffing really hurts us is that whenever we're getting ready to process a deed in lieu of foreclosure, compromises, or refunding, those are labor-intensive efforts. Certainly it is very difficult to devote the time to doing that when you have a limited staff, though in the long run you know there will be a very good return on your time spent.

So while, obviously, with a ratio of 1,800 to 1, we can't service all of them, prioritizing those cases is the avenue we take.

Mr. STAGGERS. Is that a pretty good characterization, that you're barely keeping your head above water?

Mr. WILLIAMS. That's optimistic, yes.

[Laughter.]

Mr. STAGGERS. Thanks for being candid.

Mr. Vickroy, it is my understanding you started your career in servicing in 1973, after being in the banking business. How do you feel about servicing?

Mr. VICKROY. I believe, as bankers believe, in putting resources in the back end of the business where you can lose more money than you can in the origination of those loans.

I've always been in servicing in the banking business. We put the money out and then we were charged to go get it back. I began my career with the VA as a loan service rep in Winston-Salem, NC. I was there a year-and-a-half and then transferred to New York City for 10 years as Chief of Loan Service and Claims, and Assistant Loan Guaranty Officer. I transferred in September of 1984 for promotion to Cleveland. I have always been a proponent for servicing. Again, I think the lenders' servicing is primary.

Mike mentioned about the audit. We have done four audits. Our success in doing the audits on two lenders were not as kind as Mike. We found some serious problems; that is, we found that less than 10 percent of the loans were being serviced by the lender at the 17th through 20th day of default. Our audit revealed that. We discussed it with the lender and we were able to get him to turn that around. He agreed with us to do a better job. We did a follow up and he sure did. So that helped us a great deal. If we continue those kinds of innovations, I think the chances are we will be able to reduce the number of defaults really fast.

Mr. STAGGERS. I understand you have an audit procedure, don't you?

Mr. VICKROY. Yes, sir.

Mr. STAGGERS. And you've done four. Could you explain the audit procedure?

Mr. VICKROY. The procedure is, first we determine which servicer or lender we need to audit; that is, we've seen deficiencies in their notices of default. We write the president of that organization a letter and tell him that, under the regulations, we want an audit procedure and we have to audit them.

We send them a questionnaire. The questionnaire asks how many people do you have, who are your officers, who is responsible for what job. We ask them to respond on what kind of servicing they've done on a representative sample of VA loans that we give them.

About 3 weeks after he responds, we will take a crew, generally three people, and we will go through his books. We ask him to be cooperative. They all have incidentally allowed us access to their books. What we want to do is prove that what they tell us on a notice of default they actually have done. That is, if you told me you did face-to-face servicing with the vet, in your notice of default we want to see additional documentation that would verify that fact.

We continue with that until we complete a whole worksheet—and it is labor intensive. It will take us probably 2 days to do a complete audit. After we're completed with that, we have an exit interview, a short exit interview with the principles of that servicer. We discuss what we found and tell them that we're going to follow that up in writing to them. We give them an opportunity to respond. We return to him after he has responded to our findings, and we talk to him face to face about it and discuss it even further. If he says he's going to cure these deficiencies in his servicing action, we ask him to respond to that in writing.

Mr. STAGGERS. I think you have already answered this, but let me make sure you've answered.

Do you believe that lenders service VA loans differently than their own conventional loans?

Mr. VICKROY. In the State of Ohio, we've been able to turn that around. But, unfortunately, we have a lot of Ohio loans being serviced by lenders outside the State. Quite frankly, I think there's quite a difference. I am convinced that lenders will service their conventional loans more so than they will when they have a full guarantee and an opportunity to be made whole by the Government.

Mr. STAGGERS. If you were a politician, this would be considered a "softball" pitch, a nice, slow pitch, this question. But it's so obvious, I've got to ask it.

Ohio's property inventory decreased from 4,500 to 2,000 since you've been there. To what do you attribute your success?

Mr. VICKROY. Good people, well trained, and an improving economy. There's a number of factors entered into it, not one single entity, that have contributed to that success.

Mr. STAGGERS. I will tell my Ohio colleagues that you're not running for office, because you could have said "it was me."

One last question. Is it true that, historically, the VA gave more work credit for foreclosures than for loan cures?

Mr. VICKROY. Well, it was true, yes, sir, but it was easily measureable. We've gotten more work credit on a productivity standpoint for a failure than we did for our successes because they were readily measured. I made a statement earlier that we were real good at measuring our failures. I would prefer to see our successes measured.

To do an adequate job in servicing a loan, it takes approximately 35 minutes of intensive questioning of that vet. We try to get good

financial information from him. We just can't say to him how much do you earn and how much do you pay out. We have to prove it, and we include the utilities, and any other bills he may have. We want to do a good job and it takes approximately 35 minutes of being on the phone with that veteran or meeting with him face to face to get good information so we know how to guide him early in a default. I think we should be given more credit for servicing those loans than we should be for the back end of it.

Mr. STAGGERS. One last thing. I know that you're doing supplemental servicing for the Washington Regional Office. How is that working out?

Mr. VICKROY. Well, we are servicing right now, demonstrating that it can be done from another station. We have 147 notices of default from the Washington Regional Office which we're tracking. Forty of those have already been cured, and we've only been into this for 2 weeks. We actually had discussions with 112 of those vets by telephone and we have interceded on the veteran's behalf in eight of those cases, and that way it adds up to 9 this month.

Mr. STAGGERS. I want to thank you, Mr. Vickroy, for coming up, and Mr. Williams and Mr. McReaken. I appreciate the time we have taken you away from very important business. We always look forward to having Mr. Vogel and Mr. Pedigo being with us. I thank the panel for being here.

Are there any further questions? There may be additional questions to be submitted for your responses for the record in writing.

Mr. VOGEL. Thank you, Mr. Chairman.

Mr. STAGGERS. The second panel is the American Legion, Disabled American Veterans, and the Veterans of Foreign Wars: Mr. Robertson, Mr. Schultz, and Mr. Cullinan.

Gentlemen, it has already been by unanimous consent that your full testimony will be included in the record, if you wish to summarize.

Mr. Robertson, I guess we'll start off with you, since you're listed first.

STATEMENTS OF STEVE A. ROBERTSON, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; RICHARD F. SCHULTZ, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; AND DENNIS M. CULLINAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

STATEMENT OF STEVE A. ROBERTSON

Mr. ROBERTSON. Thank you, sir.

After reviewing several reports fro the DVA Inspector General, we concluded that many of the problems stem from poor management and administrative practices. Currently, we do not feel there is any major changes needed in the program but, rather, closer scrutiny by the DVA officials of these management and administrative shortcomings and the addition of personnel to assist in the servicing of loans.

Turning to the no-bid formula, we realize there is no effect by this change on the veteran suffering default. However, we are con-

cerned about the impact that it will have with the lenders. If the lenders feel that the changes will affect the program to such an extent that they are not willing to participate, then future veterans will be suffering.

I would like to remind the subcommittee about the provision of Public Law 100–198, which allows nonprofit organizations to purchase the VA properties at a discount for housing of the homeless, which is due to expire in 1990. As you may recall, the Pennsylvania Department of The American Legion has taken advantage of this program and it's very successful at this time. The American Legion would like the committee to consider extending his to around the year 2000.

We have a lot of outside agencies that have questioned us about the procedure and how it's going, and I think we need to extend this opportunity for other organizations to participate.

Finally, we would like to advocate the idea of the vendee loan for property rehabilitation purposes. However, we feel there may be an opportunity here for speculators to take advantage of the program. We would like to assist you an the committee on drafting this up to where it will be a viable program.

Thank you for this opportunity to testify, sir.

[The prepared statement of Mr. Robertson appears at p. 51.]

Mr. STAGGERS. Mr. Schultz.

STATEMENT OF RICHARD F. SCHULTZ

Mr. SCHULTZ. Thank you, Mr. Chairman.

On behalf of the more than 1.2 million members of the Disabled American Veterans, I wish to thank you for this opportunity to appear here today.

Mr. Chairman, as you know, while Congress has done well in responding to the home loan guaranty funding crisis through legislative initiatives, much remains to be done if we are to witness the return of a viable Loan Guaranty Program which will provide meaningful benefits for our veterans in a cost-effective manner.

The performance of the Loan Guaranty Division in the area of loan servicing is obviously less than stellar. Of the 240 cases that were reviewed by the IG's recent audit, in 151 of those there was either no contact made with the veteran or an impersonal letter was sent out, and thus, there was no effective servicing for these individuals. Also, this IG audit points out that the primary servicing of veterans' loans is to be done by the lenders. However, the Inspector General's report noted that in over 90 percent of the sample of cases reviewed, lenders did not report at least one of the three items of information required by DVA to assist veterans or to advise the Loan Guaranty Division of what action they were taking to assist veterans in trying to cure loan defaults.

Equally or perhaps more disturbing in this IG report are the findings that 63.9 percent of all terminated DVA loans contain avoidable losses. Avoidable delays in resolution of defaults during 1987 resulted in approximately $76 million in needless expenditures by the Loan Guaranty Division.

Mr. Chairman, I have recently had the opportunity to visit two regional offices with sizeable loan guaranty operations. By and

large, I was impressed with their understanding of the critical need to properly service veterans' loans. However, it is painfully apparent that, without the resources to do the job properly and efficiently, we can expect no meaningful improvement in the area of loan servicing. For the most part, regional office directors and loan guaranty officers throughout the country are frustrated by their lack of resources and their ability to do the job properly. Mr. Chairman, without adequate resources, we can expect many loan guaranty operations to do little more than pay the guarantee to the lenders and basically pay lip service to our Nation's veterans when it comes to servicing loans.

Mr. Chairman, it is readily apparent that the loan guaranty operation is in desperate need of help. By adding additional FTE, we believe this can be accomplished. By all accounts, these FTE will save taxpayer dollars. As you're aware, Secretary Derwinski, in his request for a supplemental for fiscal year 1989, indicated that an additional 244 employees to perform loan servicing and property management activities would save approximately $85 million.

Mr. Chairman, on the subject of property acquisition and property management, we would just like to suggest that the DVA look at other alternatives rather than letting the property sit empty for prolonged periods of time. As has been pointed out here today, when the property sits too long, they fall into disrepair and often are vandalized. Possibly an area that could be looked at is the renting or leasing of these properties.

In conclusion, I would like to say that we believe it is abundantly clear that much more needs to be done by DVA to service veterans loans and monitor mortgage lenders who have the primary responsibility for loan servicing. Everyone, except perhaps OMB, recognizes that additional employees in loan servicing would generate tremendous program savings. Proper loan servicing and program savings go hand-in-hand.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Schultz appears at p. 56.]

Mr. STAGGERS. Thank you.

Mr. Cullinan.

STATEMENT OF DENNIS M. CULLINAN

Mr. CULLINAN. Thank you, Mr. Chairman. On behalf of the entire VFW membership, I wish to thank you for inviting our participation here today.

I will begin by pointing to the fact that many of the home loan program's current woes are due to inadequate properly trained staff and funding to properly service loans so as to avoid defaults and also to properly manage properties that the VA does acquire due to foreclosures. The Loan Guaranty Program was and continues to be inadequately staffed to efficiently handle the default problem. This has been costly. Many defaults that could have been cured are not. Due to inadequate staffing and training, veterans are not provided with meaningful financial information and counseling. This results in more foreclosed properties to the VA, the more properties the VA must manage and maintain, and results in major increases in cost to the program and, of course, harm to the

veterans. I would certainly say that today's testimony and the IG report substantiates this.

The VFW supports improved financial counseling by the VA and the banks with respect to the purchase of a home to begin with. The enormous cost involved with the initial purchase, the costs involved in maintenance of the home, just the sheer work that goes into owning a home, is not for everyone. We believe there are veterans who, if counseled as to what all is involved, would perhaps not acquire a home that they really can't handle to begin with.

We support the VA's efforts to improve delinquent loan servicing. Apparently this is truly making a difference. We have always argued that it should, and gauging from today's testimony, it does seem to be having a positive effect, at least in certain areas.

With respect to property management, the VFW holds forth that it is of paramount importance that the properties not be held on to too long. It is costly to begin with. There is a cost of insurance protection against fire and, of course, vandalism, the inevitable vandalism, it seems. We suggest perhaps creative marketing techniques and discounts, where necessary, to move properties rather than to hang on to them.

With respect to the 1-percent vendee loan fee, traditionally the VFW has opposed any kind of fee with respect to veterans' programs and entitlements. We also recognize many people who avail themselves of a vendee loan aren't veterans. It simply makes sense that if a veteran has to pay 1-percent fee, as it now stands, that a nonveteran should have to pay it as well. However, we would say we don't think this fee should be raised, since we support the VA's building up its portfolio of vendee loans. We think raising the fee would be harmful. But applying it to the vendee loan program, yes.

With respect to discounts for foreclosed properties to provide veterans with shelter, we very strongly support this. We know it's gotten off to a slow start, but that, of course, is predictable. It is really a very involved undertaking to provide any kind of shelter for the homeless. We think with time it should build up speed and do better. In any event, it belongs there in the arsenal of help for the homeless.

With respect to vendee loans for property rehabilitation, yes. Once again, it makes sense to us that if a vendee loan is going to be provided to acquire a property, then one should also be available to fix it up. There are properties out there—we've heard this today—that people would buy if they also had the means to fix them up. But if the money is not there, they won't. This would be another means of moving VA properties.

My final comment is just an extra remark. You spoke earlier of equity skimming. It was mentioned that, in the big picture, this doesn't represent much of a loss to the Government. But it is our position that, with respect to the individual veteran, it is both a great injustice and an enormous burden. We think everything should be done to eliminate equity skimming, invoice packing, and all the rest.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cullinan appears at p. 60.]

Mr. STAGGERS. Thank you all very much.

Mr. Robertson, this is not really a question, but I want to mention that the Legion's program in Pennsylvania is of very much concern to me, the homeless problem. We will probably be looking at maybe either bringing the subcommittee or myself personally to visit that. We may be calling upon you for some cooperation.

Mr. Schultz, since the VA collects a large portion of its money from the service-connected disabled in their debt collection efforts, how often do veterans contact your organization about this?

Mr. SCHULTZ. Mr. Chairman, we've had quite a few cases dealing with appeals basically on this very issue. If I could cite one example, we had a service-connected disabled veteran whose loan had been assumed and the subsequent individual defaulted on that loan. A notice was sent out. Of course, it was sent to the wrong address. It was sent to the address of the property, not to where the veteran was residing and, the VA had access to his address within the VA system. But nonetheless, this individual was able to find out about the foreclosure proceedings and he went to the lenders and offered to give them a deed in lieu of foreclosure. In this particular case, they denied the deed in lieu of foreclosure.

One of the reasons they denied it was because they felt the veteran had the ability to pay. In a quote by an individual from the Loan Guaranty Division, in the folder it indicated the veteran is receiving $521 monthly from the VA compensation, which means that he has the ability to repay the Government.

Also, in this same case, the individual then was able to work out a deal with the mortgage lenders, where they indicated they wouldn't take any deficiency judgments because he was trying to take some legal actions in this case. Well, he believed that by doing this he would, of course, have no further liability. Then once that property was foreclosed, the lenders went to the VA and the VA paid the guaranty. Then, of course, he owed VA the money.

This is the sort of thing we see happening. If proper servicing was done out there, and proper action would have been taken to contact him a little more timely. In fact, in other individual cases, we've seen where they were able to get to the person who had the primary responsibility in some of these assumed loans.

It is our view that if you're going to look at equity when you determine defaults, if you determine waivers in these defaults, as you mark up today's bill, you have to put equity back in that. These cases show that, number one, the equity has been taken out when they look at the individual's ability to pay and take his compensation, and number two, no efforts are made really to service these loans.

Mr. STAGGERS. I was glad to hear that you went to the two regional offices and talked about operations of the Loan Guaranty Program. Do you want to expand on that any more, about what your experience and observations were?

Mr. SCHULTZ. Basically, as I said, I was impressed by the loan guaranty officer there in both these stations, simply because they were well aware of the problem in servicing and they realized that more needed to be done in servicing. Both places were doing some additional work in that area, trying to do more in servicing. However, both realized that, without the proper staffing and training of staff, they really couldn't attack the problem.

I had an opportunity to look at the LPS system and was able to watch while mortgage companies called in individual applications. They would put the information right into the system and then assign an appraiser, and then on the other end, when they issued the certificate of reasonable value, of course, that also was put into the system. That goes out automatically.

Those ADP enhancements are going to help them down the road. But I might point out here that the fear of any ADP enhancement, I don't care where it is within the Veterans' Administration, is that they're going to take their employees before they ever realize any effects in savings because of the ADP. They really worry about any enhancements in that area because they're afraid of losing additional employees.

Mr. STAGGERS. Mr. Cullinan, you mentioned equity skimming, and I'm glad you brought that up, because the last panel pretty much indicated it wasn't much of a problem.

In your experience, do you at least see it as a problem that we should explore?

Mr. CULLINAN. Very much so, Mr. Chairman. We can't truly say at this point in time that it's of epidemic proportions. However, it is occurring across the Nation. The individual veterans involved are severely harmed by it. It is something that should be stopped. It's almost cyclical, where it seems to rise up every so often, where there is at least the awareness of a lot of it going on and comes into the public consciousness. But we very much believe it is something that should be stopped.

Mr. STAGGERS. My time has expired.

Mr. Harris?

Mr. HARRIS. Thank you, Mr. Chairman.

From reviewing the testimony of the service organizations before us, I think it is apparent that the first thing we can say—and I think the committee probably agrees, just from the comments that have been made by several Members—that we need more people out in the field to help with the servicing of loans. If any of you would like to expand on that, I would appreciate it.

Mr. SCHULTZ. Mr. Harris, as has been pointed out, Secretary Derwinski requested in his supplemental 244 employees to save some $85 million in servicing and property management. It has been pointed out by the loan guaranty officers who testified here today that the more work that's done in servicing, the more money they're going to be able to save.

Mr. HARRIS. It makes sense.

Mr. SCHULTZ. And also of importance is to keep that veteran in the house, keep them in their homes. For the most part, veterans don't want to foreclose. They're not just out there to take a walk, so to speak, when times get tough. If they have the help they need, the advice and counseling, they can stay in those homes and everybody is well served.

Mr. CULLINAN. Mr. Harris, the VFW supported the increase of 240 FTE contained in the independent budget, but in light of today's testimony, with this atrocious ratio of 1800 to 1, 1800 loans to 1 servicing officer, I can only say that would represent a modest increase at this point.

Mr. ROBERTSON. Sir, we've been told that if one person can save two loans, he has paid his own salary for his efforts. That's smart dollars. I don't see why we should even balk at sending more people.

Mr. HARRIS. I think we can look at the steady drain on our loan fund since 1984 and see the results. We're continuing to have to ask the taxpayers to chip in to keep the fund afloat.

Thank you, Mr. Chairman.

Mr. STAGGERS. I only have one last question, a three-part question, but it is the last question. I would ask you all to comment.

I have to assume that veterans would call your organizations when they run into problems. That would be my first question. Do they call your organizations when they have problems?

Secondly, what is the perception of the Loan Guaranty Program from your membership? And, with those two things in mind, what would be your advice to us on how we could implement this program better?

Whoever wants to start off.

Mr. SCHULTZ. Mr. Chairman, first off, I can say that, unfortunately, we usually don't receive a call until after they have gone into foreclosure proceedings and have subsequently been advised of a debt to the Government. That's unfortunate. The ones that we have discussed this with will say there wasn't a whole lot said to them, as to how they could cure the loan or anything else. In some cases we have been advised that even attempts to contact the mortgage lenders proved futile because they weren't there to respond to their questions on how they could cure their defaults or how they could somehow cut their losses.

I believe if the committee is to do one thing, obviously, first would be to add the employees necessary for servicing, and necessary for the property management, but also really emphasize that the primary responsibility for servicing loans lies with the lenders. I think with proper staffing, as was pointed out here again today, to get to the lenders and point out their deficiencies in areas where they're not doing a good job of servicing, I think that's going to help everybody concerned, especially the veterans and keeping them in their homes.

Mr. CULLINAN. Mr. Chairman, most of the calls for help that we would get would go through our State service officers, people who work in the field to assist veterans with a variety of problems they have with the VA and elsewhere as well. I agree with my colleague here, Mr. Schultz, that more often than not the calls will come in late, where there is not a whole lot that can be done. In other words, there are already serious problems.

As far as the perception of our membership of the VA home loan program, they appreciate it and value it and respect it. But I think they also view it as being part of some sort of bureaucratic entity which is somehow too large and too complex for them to at least readily identify with.

With respect to improving the operation of the program, staffing and training—that's been said over and over again at today's hearing. Once again, to agree with Mr. Schultz here, the lenders themselves have to be more involved.

We have always suspected—and, once again, it would appear that we are right—that VA loans aren't given the same attention as are conventional loans, at least where the guarantee is going to cover the entire cost, because you can see where this would happen. The bankers would be tempted to watch where their greatest potential for loss lies, and with the VA guarantee, they really don't quite have that problem.

Mr. ROBERTSON. Our situation is very much the same. Most of the time, when we find out about the veteran defaulting on a loan, it's way after it's too late to do anything about it. The smoke is just now clearing.

We found that most of the ones who have lost their home have lost everything. I mean, they're unemployed, there is no future for a job in that area, and they don't want to relocate. They are just struggling to make ends meet.

I am personally from an area down south that is affected by the oil problems. A lot of first-hand information that I have received was from guys suffering from 11, 12 percent unemployment. They just can't find a job.

As far as what they are wanting, they want to stay in their house. They know that times have been good and bad. Anybody who's ever been around an oil field—I worked as a "roughneck" and I know it goes in cycles. There's good times and there's bad times. Unfortunately, this is a prolonged bad time. I think they would make good on their loans if they were given some kind of an option, other than pay up or get out.

Mr. STAGGERS. Any further questions?

Mr. HARRIS. I was just wondering, you said that you usually don't hear from your people until it's almost too late, or that the sheriff or someone is there to evict them. What do your organizations do as far as notifying your members of any service that you provide? Do you advertise it, do you send letters to them?

Mr. ROBERTSON. Plenty of publications, sir, magazine articles, bulletins, post-briefings, we've got it all the way down the line. Whatever systems we have at this level we have echoed all the way down to the lowest post level.

I think a lot of it is pride. I think the membership is maybe a little bit embarrassed to come in and say hey, I've lost everything. I think that is one of the things that deters them from coming in.

Mr. CULLINAN. Mr. Harris, we operate pretty much the same way. We promote our services through our magazine, articles and periodicals, and, of course, word of mouth. Ours is a very social organization, so it's member to member. I agree, there is an element of embarrassment. I suppose there are limits on what can be done by a service organization, especially when you're dealing with a home loan program, where the person comes in with a problem when the sheriff is at the door.

Mr. SCHULTZ. Mr. Harris, in the DAV, we have some 280 national service officers throughout the country, and we have also some department service officers, and then in medical centers we have our hospital service coordinators to assist veterans. But we have another program, our field service units, that we advertise in local media around the country. We send letters to individual veterans advising them that our field service units are going out into the

area where they're not generally served by the regional office. So we do get out and publicize our services to veterans.

One area that I didn't mention before, we also have an emergency relief program where we do try and assist some of these veterans. However, with limited resources, there is no way that we could cure these defaults by a grant to an individual. As I indicated, obviously, when someone is in default, they're usually 3 or 4 months behind by that time. As was pointed out again here today, when the money gets up to that point, they just can't make that one-shot payment so they figure it's all lost. They go on from there. They figure they have lost everything. Again, if more servicing was done, I think they could show them there is other ways of curing that, where they wouldn't have to lose their home.

Mr. HARRIS. Thank you, Mr. Chairman.

Mr. STAGGERS. I want to thank the panel for the insight you have given us, from your perspective. There may be additional questions submitted in writing that we would ask you to answer. Thank you for your participation.

Mr. SCHULTZ. Thank you, Mr. Chairman.

Mr. STAGGERS. The last witness is Mr. Wynn with the Mortgage Bankers Association. We're not trying to pick on the private sector, but you're the only ones who were willing to show up. We do appreciate your participation.

As I have made clear to other panels, your full statement will be made a part of the record. So if you want to summarize, that would be more than welcome.

STATEMENT OF RONNIE J. WYNN, PRESIDENT, COLONIAL MORTGAGE COMPANY, MONTGOMERY, AL, APPEARING ON BEHALF OF THE MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. WYNN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, my name is Ronnie Wynn. I am president of Colonial Mortgage Company, located in Montgomery, AL. I am also president-elect of the Mortgage Bankers Association of America. MBA appreciate the opportunity to appear before you today to testify on the Department of Veterans Affairs home Loan Guaranty Program and expiring provisions of the law.

It is becoming increasingly difficult for our members—and we must believe it is for Congress, also—to understand whether or not the Veterans' Administration is really interested in providing housing for the veterans of this country. The VA is not only attempting to increase the cost and risk to lenders who want to originate and service VA loans, but it continues to defy the wishes of Congress in the administration of the program, as evidenced by the fact that the provisions of the law signed by the President on December 21, 1987, have not been implemented.

First, and of greatest urgency, is that MBA believes the VA's existing no-bid formula should be extended. MBA appreciates and supports the action of the subcommittee in amending the definition of "net value" to prohibit the VA from including the Government's cost of borrowing in the no-bid calculation. For this subcommittee's

information, MBA is urging the Appropriations Committee to incorporate similar language for fiscal year 1989.

MBA urges prompt implementation of the proposed regulations that give lenders relief in cases of no-bid delays. These amendments apply to defaults on VA-guaranteed mortgages occurring 60 days after enactment of the law. Seventeen months after enactment of that law, and with fewer than 6 months until the law expires, lenders have not received any of the benefit that Congress intended from the no-bid relief provisions.

MBA believes that lenders should have the option of reopening no-bid cases occurring after February 20, 1988, the effective date of the no-bid relief amendment, where the new cutoff date would reverse the no-bid. Lenders have suffered losses the law was designed to prevent and should be offered the opportunity to recoup them.

MBA is also concerned about the impact of a recent VA interpretation concerning a requirement on selection criteria for appraisers. After 5 years of accepting appraisals completed by HUD direct endorsement lender staff appraisers, the VA has now stated that these appraisals can no longer be accepted because they were not performed by appraisers on a rotational basis. The effect of this sudden change in policy will be to require additional appraisals and the higher resulting cost when a veteran buyer is found. The unnecessary delays and added expense will adversely affect the very veterans we are trying to help. MBA respectfully asks your assistance in obtaining relief from this requirement.

Let me also point out, as MBA has done on numerous prior occasions, that the VA has yet to issue regulations for the mandatory underwriting of loan assumptions and for direct appraisals by automatic lenders. Underwriting loan assumptions is a common occurrence in the mortgage lending industry, so there is no excuse for the 17-month delay.

Further, the proposed fee of less than $500 for underwriting an assumption would be below the industry norm and would not adequately compensate lenders for the additional work.

MBA appreciates the opportunity to testify before you today and we would be happy to answer any questions you might have.

[The prepared statement of Mr. Wynn appears at p. 63.]

Mr. STAGGERS. Mr. Wynn, anyone from Alabama is welcome before this subcommittee at any time. We are very proud of Mr. Harris, a member of our subcommittee.

Do you think the trend is changing and that foreclosures have finally bottomed out?

Mr. WYNN. Our statistics don't seem to agree with the statistics of the VA. I think they were a little optimistic. In fact, MBA statistics, for the second quarter of fiscal year 1989, showed a slight increase in defaults. So we are still very concerned about the continuing delinquency and default problem.

Mr. STAGGERS. What do you think could be done to reduce the amount of foreclosures in the future?

Mr. WYNN. Certainly the underwriting criteria that are used need to continue to be tightened in terms of making sure the guidelines and the rules are followed, and the servicing that has been talked about. We need to be sure we are following existing guidelines. There are guidelines that are in place that certainly give the

veteran or any other borrower ample opportunity to talk with the lenders. We need to be sure that our staffs are following those guidelines of prudent servicing practices.

Mr. STAGGERS. What is the genera! perception among mortgage bankers about the home Loan Guaranty Program?

Mr. WYNN. I think, as I said in my opening paragraph, our members are becoming very disenchanted with the program. We all know it has changed drastically in the last 6, 7 years. The program was an entitlement program, which was provided to the veterans of this country for their service to this country. It was a 100 percent loan program, to give them thanks for what they did and what they are doing.

However, because the program has now turned out to be not as cost-effective as it once was, the burden of that cost seems to be, in every way it can, pushed back to the lender. The rules tend to be changed in the middle of the game, such as this recent cost-of-carry rule that's trying to be implemented.

With all of the changes that are taking place, as a private industry, we are becoming less and less enchanted with making VA loans, certainly, in the way that the Congress intended the veteran to benefit from them in the initial stages of the program.

Mr. STAGGERS. This may be more rhetorical, I guess, than anything, since you may have already answered it, but how can we promote more lender participation?

Mr. WYNN. Quit changing the rules in the middle of the program.

Mr. STAGGERS. You heard some of the testimony here in regard to loan servicing. Do you service VA loans differently than you do your own conventional loans?

Mr. WYNN. Not at all, sir. In fact, I would like to clear up a misconception in regard to losses on conventional versus VA loans.

As the committee probably knows, all of our VA loans are placed in the Ginnie Mae pools. We suffer losses on every foreclosure that we have. In fact, because VA loans are generally 100 percent loans, our chance to suffer a loss on a VA loan is much greater than it is on a conventional loan because we're requiring downpayments on conventional loans. So because of that misconception, I would suggest to you that we service VA loans just as aggressively and just as strongly as we do conventional loans, or FHA loans, for that matter.

Mr. STAGGERS. How long do you wait before notifying the VA of a default?

Mr. WYNN. There requirement is 90 days.

Mr. STAGGERS. I have no further questions at this time. My time has expired.

I would recognize Mr. Harris.

Mr. HARRIS. Ronnie, I just want to take this opportunity to welcome you to your Nation's capital, the home of rosy scenario that we hear so much about nowadays. It's probably going to continue to cause us problems.

Seventeen months after enactment, can you tell me a little bit more about that, the regulations or rules that evidently the VA has not implemented?

Mr. WYNN. Well, as you know, Judge, the law that was passed in 1987 was supposed to have been put into effect in 60 days, which would allow some relief in terms of bankruptcy cases, or if the VA, for whatever reason, delayed the process, or if the VA requested forbearance and that forbearance didn't work and the loan later foreclosed. Those costs that would be involved because of those three actions would not be able to be used in calculating whether the no-bid would apply or not.

As a result of that, there have been many cases that would have not been no-bids, in which lenders have had to take title to the property and suffer horrendous losses. If the act had been implemented as it was directed to by Congress, it would have saved the no-bid process and saved the money that Congress recognized was beyond the control of the lender to do anything about.

Along with that, the law also required the underwriting of VA loans on assumptions and allowed the lenders to do that and receive a fee for doing that. That has not been implemented, along with the ability of a lender to review the appraisal.

Mr. HARRIS. Mr. Chairman, if it's proper, I would like to ask the VA as to why this legislation has not been implemented. We have Mr. Vogel here and Mr. Pedigo.

Mr. STAGGERS. I think that is very appropriate, if someone from the VA could come up to one of the microphones.

Mr. PEDIGO. Would you please repeat the question?

Mr. HARRIS. The mortgage bankers spokesman just told us that the regulations that were passed by Congress, statutes that dealt with defaults on VA-guaranteed mortgages occurring 60 days after enactment and required certain things to be done, and that 17 months have passed since enactment, and the law only has about 6 months to go before it expires, that nothing has really happened as far as the VA is concerned.

I would just like your response to that, as to why the legislation passed by the Congress has not been implemented by the Veterans' Administration.

Mr. PEDIGO. Well, we certainly have taken longer than we should have on that particular set of regulations. We refer to it as the "no-bid relief regulations".

However, it is important to keep in mind that this was a fairly complex set of regulations to draft, and there was some question as to what the actual intent of the law was. So we spent several months after the law was enacted, in the first 4 to 5 months of 1988, meeting with the Mortgage Bankers Association in an effort to try to come to some understanding as to exactly what approach was intended by Congress. About this time last year we finally arrived at an agreement and began drafting the regulations.

All I can tell you is that the regulatory process is not a simple one to go through. It requires many levels of concurrence within the Department of Veterans Affairs, as well as concurrence by the Office of Management and Budget. So it's never a quick process. It is always lengthy, and in this particular situation it probably has dragged out longer than it should have. For any excess delays, we apologize.

Mr. STAGGERS. Would the gentleman yield?

Mr. HARRIS. I would be happy to yield to the Chairman.

Mr. STAGGERS. You will be happy to know that the Chairman of the full committee has sent a letter and we have not received a response. When we do receive that response, we'll get you a copy.

I thank the gentleman for yielding.

Mr. HARRIS. Well, where are we as far as the regulations are concerned?

Mr. PEDIGO. The regulations were published in the Federal Register for comment on March 31. The comment period ended May 1. The close of business for receiving comments was actually yesterday afternoon at 4:30. So we are now in a position to evaluate the comments and take any comments that we consider appropriate under consideration when we draft the final regulations.

Assuming that we have no difficulty evaluating the comments, we should probably have final regulations ready to go to OMB for their approval and subsequent publication in the Federal Register within the next two to four weeks.

Mr. HARRIS. Well, obviously, there was not enough time built into the program if it's going to take the length of the time provided in the law just to get to where we are now.

Where did you go to find the intent of Congress?

Mr. PEDIGO. Of course, we looked at the conference report on the bill. That tells us a lot.

Part of the problem was in crafting the regulations themselves. We had to decide where the cutoff points on excluding interest that accrued as a result of bankruptcy were and what exactly the parameters of the VA-requested forbearance provision would be. There were, quite frankly, some significant differences of opinion between the VA and the MBA when we first started discussing this particular provision of the law. I think that we pretty much have come to full agreement as to how it should be interpreted.

Mr. HARRIS. Did you agree with the intentions of the law as passed by the Congress?

Mr. PEDIGO. Yes.

Mr. HARRIS. So that didn't have anything to do with the 17 months?

Mr. PEDIGO. No, it did not.

Mr. HARRIS. Mr. Chairman, evidently we need to keep a better eye on the implementation of the laws that we pass, if it's going to take this long to implement them.

I will yield back my time to you.

Mr. STAGGERS. I think the committee has sent three letters, and we've had hearings. So we will continue to look at this and hopefully it will get resolved.

Mr. WYNN. Mr. Chairman—and Mr. Pedigo can correct me if I'm wrong—but it is my understanding that even with the publication this past month, there are still parts of that legislation that have not been published in the Register yet. Only parts of it. There are still parts that still have been unpublished.

Mr. STAGGERS. Mr. Pedigo?

Mr. PEDIGO. Yes, Mr. Wynn is correct. There are two other provisions of the law that have not been published as of today. One is what was referred to in his comment as the regulations on underwriting loan assumptions, and then the other one is our own lender

appraisal processing program which would be similar to HUD's direct endorsement program.

The lender appraisal processing program regulations were to appear in the Federal Register yesterday. I have not been able to confirm that they did, in fact, appear. But that was the projected date for the appearance for comment.

The explanation as to why it has taken this long to get those out is that we did not perceive a serious need to have those regulations in place at any time during the last year-and-a-half because, quite frankly, the mortgage origination business has been at a very low state and our regional offices have been able to handle the appraisal requests that we've been receiving in a timely manner. In fact, currently, 98 percent of the appraisal requests that we receive nationwide are being processed within 20 days.

So I don't think that anybody could seriously contend that by not having those regulations in place that we have done a disservice to the lending industry or to veterans, because we are providing timely service.

As to the assumption regulations, the way the law is drafted, the lenders' authority to underwrite loan assumptions applies only to loans that were guaranteed subsequent to May 1 of 1988. Because writing these regulations was going to be a very complex procedure, we decided, as an interim measure, to have our regional offices handle the few cases that would come in as a result of loans guaranteed after March 1 of 1988. That has been the situation since that law was passed. We are handling those cases, and from everything we have heard from the regional offices, they are handling them in a timely manner.

Those regulations are at OMB for their approval. We expect that they will be published in the Federal Register for comment within the next few weeks, I would say no more than two to three weeks.

Mr. STAGGERS. I think the frustration level is even multiplied by the fact that this was requested 2 years before we even passed the law. So, as bad as it is, it is even worse than it would appear, because this is something that has been on the table for a long time. It is not something new. As I said, it was even 2 years before we passed the law. I think that's the frustration level that not only we are feeling but obviously Mr. Wynn and others are feeling.

Mr. PEDIGO. I can appreciate the frustration. I would just point out that, as I recall, the impetus for passing the legislation was the crunch that occurred in the front end of our program as a result of the low interest rates in 1986 and 1987, and the perceived need to allow lenders to control the appraisal process. As I said previously, that has turned around completely. Appraisal requests are at a very low level, and we're handling those in a timely fashion.

I seriously believe that there are few instances where lenders are being currently harmed because they cannot control that appraisal process.

Mr. STAGGERS. Does the gentleman from Alabama have any further questions?

Mr. HARRIS. No, Mr. Chairman.

Mr. STAGGERS. I thank the panel, Mr. Wynn—we usually have more than the one person. We do thank you for coming. As I said, anyone from Alabama is welcome before the subcommittee. Mr.

Harris will keep us on our toes and we'll try to keep the administration on its toes as we work through this legislation.

Mr. WYNN. Thank you, Mr. Chairman.

Mr. STAGGERS. The hearing is now closed.

[Whereupon, at 11:52 a.m., the subcommittee was adjourned.]

APPENDIX

HONORABLE HARLEY O. STAGGERS, JR.

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

OVERSIGHT OF THE HOME LOAN GUARANTY PROGRAM

MAY 11, 1989

THE SUBCOMMITTEE WILL BE IN ORDER.

THIS MORNING'S HEARING WILL FOCUS ON SERVICING OF GUARANTEED HOME LOANS, VA FORECLOSURE PROPERTY ACQUISITIONS AND SUBSEQUENT MANAGEMENT.

WHEN A LOAN GOES INTO DEFAULT, BOTH THE LENDER AND THE DEPARTMENT OF VETERANS AFFAIRS SHOULD TRY TO ASSIST THE BORROWER IN BRINGING DELINQUENT PAYMENTS UP TO DATE. THIS PROCESS OF HELPING THE BORROWER IS CALLED LOAN SERVICING.

ALTHOUGH THE DEPARTMENT OF VETERANS AFFAIRS HAS SOME EXCELLENT GUIDELINES INTO PLACE, LACK OF PERSONNEL HAS RESULTED IN MINIMAL SERVICING OF DELINQUENT HOME LOANS. IT'S SOMETIMES EASIER TO JUST PROCESS FORECLOSURE PAPERWORK THAN TO TRY TO CONTACT THE VETERAN TO SEE IF SOMETHING CAN BE WORKED OUT.

HIGH FORECLOSURE LEVELS CONTINUE TO BE A MAJOR CHALLENGE. GAO HAS REPEATEDLY TESTIFIED BEFORE THE COMMITTEE THAT INTENSIVE AND TIMELY SERVICING OF DEFAULTS REDUCES ULTIMATE FORECLOSURES AND SUBSEQUENT CLAIMS AND PROPERTY MANAGEMENT EXPENSES. A RECENT STUDY ISSUED BY THE INSPECTOR GENERAL REITERATES THESE FINDINGS.

IT IS ESTIMATED THAT A 2 PERCENT INCREASE IN THE CURE RATIO COULD GENERATE $56 MILLION IN SAVINGS, FAR OFFSETTING THE COST FOR ADDITIONAL FTEE. ADDITIONALLY, AN INCREASE IN THE NUMBER OF PERSONS EMPLOYED IN THE PROPERTY MANAGEMENT FUNCTION WOULD RESULT IN REDUCED HOLDING TIMES FOR ACQUIRED PROPERTIES AND HIGHER PRICES. IF THE AVERAGE SELLING PRICE INCREASED BY 1.5 PERCENT, DVA ESTIMATES THAT THIS WOULD GENERATE AN ADDITIONAL $26 MILLION IN REVENUE TO THE LOAN GUARANTY REVOLVING FUND.

WHAT THIS MEANS IS THAT THE ADDITION OF 248 FTEE AT A COST OF $9.5 MILLION WOULD GENERATE $82 MILLION IN SAVINGS.

WHAT WE HAVE DONE THIS MORNING THEREFORE IS TO BRING IN LOAN GUARANTY OFFICERS FROM THE FIELD TO ANSWER ANY QUESTIONS YOU MAY HAVE ON THEIR EXPERIENCES WITH THE PROGRAM. WE HAVE THE LOAN GUARANTY OFFICERS FROM HOUSTON, DENVER AND CLEVELAND. HOUSTON HAS A SERVICING PILOT PROGRAM INTO PLACE AND THE RESULTS ARE OUTSTANDING. THEY HAVE ALSO UNDERTAKEN MANY INITIATIVES IN REGARD TO PROPERTY MANAGEMENT AND SALES. SINCE DENVER IS ALSO EXPERIENCING MANY PROBLEMS, I THOUGHT WE SHOULD HEAR FROM THEM. CLEVELAND HAS BEEN CALLED IN BECAUSE IN ADDITION TO DOING THEIR OWN SUPPLEMENTAL SERVICING, THEY HAVE PERFORMED SOME SUPPLEMENTAL SERVICING FOR THE WASHINGTON REGIONAL OFFICE.

OTHER ISSUES WHICH WILL BE DISCUSSED ARE CERTAIN EXPIRING PROGRAMS SUCH AS VENDEE LOAN FOR PROPERTY REHABILITATION PURPOSES AND THE SELLING OF DISCOUNTED PROPERTIES FOR HOMELESS VETERANS.

OPENING STATEMENT OF CONGRESSMAN MIKE PARKER

VETERANS SUBCOMMITTEE ON

HOUSING AND MEMORIAL AFFAIRS

HEARING ON HOUSING PROGRAM

THANK YOU MR. CHAIRMAN. I WANT TO EXPRESS MY APPRECIATION TO THE VETERAN SERVICE ORGANIZATIONS AND FIELD OFFICERS OF THE VETERANS ADMINISTRATION FOR APPEARING HERE TODAY. I COMMENDED THE FIELD OFFICERS AT OUR LAST HEARING FOR BEING BRAVE ENOUGH TO BE HONEST WITH US ABOUT THE PROBLEMS IN THE PROGRAM WITH THEIR BOSSES SITTING RIGHT BEHIND THEM. YOU ARE TO BE COMMENDED ALSO BECAUSE, LIKE THEM, YOU ARE WORKING WITHOUT A SCRIPT.

AT THAT HEARING I MADE A COMPARISON IN REFERENCE TO THE FUNDING FOR VETERANS PROGRAMS THAT I WOULD LIKE TO REPEAT TODAY. THESE PROGRAMS HAVE BEEN CUT TO THE BONE OVER THE YEARS. OUR VETERANS, JUST AS THEY DID IN BATTLE, HAVE BRAVELY ENDURED AND HAVE CONTINUED TO FIGHT FOR WHAT THEY HAVE ALREADY EARNED. THESE CUTS NOW THREATEN TO SEVER THE BONE OF VITAL PROGRAMS WHICH WILL LEAD TO THEIR CERTAIN AMPUTATION. THE CUTS MUST STOP AND TOGETHER WE MUST WORK TO RESTORE THE FLESH TO THESE CRUCIAL SERVICES. WE HAVE A COVENANT WITH THOSE WHO HAVE SERVED OUR COUNTRY IN THE ARMED SERVICES AND ITS TIME THAT WE MAKE GOOD ON OUR PROMISE.

THERE IS NO POT OF GOLD AT THE END OF THE BUDGET RAINBOW, BUT THROUGH INCREASED EFFICIENCY, ADHERENCE TO BASIC BUSINESS PRINCIPLES, AND REASONABLE FUNDING WE CAN CREATE A MODEL FEDERAL AGENCY THAT CAN ADEQUATELY CARE FOR THOSE WHO PUT THEMSELVES IN HARM'S WAY TO DEFEND OUR FREEDOM.

MR. CHAIRMAN, I HAVE SOME QUESTIONS WHICH I WILL WITHHOLD UNTIL MY COLLEAGUES HAVE AN OPPORTUNITY TO MAKE THEIR OPENING COMMENTS.

STATEMENT OF R. J. VOGEL
CHIEF BENEFITS DIRECTOR
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
MAY 11, 1989

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Department of Veterans Affair's housing program.

I would, first, like to bring you up-to-date on the current activity of the loan guaranty program. The VA interest rate on guaranteed home loans has remained fairly stable. The current rate is 10 1/2 percent, and has been in effect since December 19, 1988.

During Calendar Year 1988, the VA guaranteed 210,999 loans, which is down considerably from 1987 when we guaranteed 455,616. Nineteen eighty-seven was a record year due to the large number of refinancing loans guaranteed that year. Refinancing loans comprised approximately 39 percent of the total volume in 1987. In 1988 they represented only 13 percent of the originations.

Eighty percent of the acquisition loans guaranteed in 1988 were made without a down payment. These no-down-payment loans had an average purchase price of $71,887 and an average loan amount of $72,205. For those veterans who obtained loans with a down payment, the purchase price averaged $95,530, with an average loan amount of $86,097.

Since the loan guaranty program was enacted in 1944, it has assisted more than 12.7 million veterans to obtain housing. Mortgage credit totaling over $322 billion has been allocated to veterans; much of these funds may not have been made available without the benefit of this GI bill program. Over $135 billion worth of these loans have been repaid in full as of last year.

Mr. Chairman, in your invitation letter you described the focus of this hearing as being on servicing property acquisitions and management, and some of the programs currently scheduled to expire within the next few years. I will discuss those issues now.

Recent statistics on defaults reported and defaults pending continue to be encouraging. During the last 3 months, defaults reported fell 8 percent from the same period in 1988. The 139,238 defaults pending at the end of March 1989 are 4.8 percent fewer than the number pending at the end of March 1988. While it is too soon to call this a trend, each of the last four quarters have shown a reduction in defaults reported and pending when compared to the corresponding quarters 1 year earlier.

Foreclosures completed fell at a greater rate than defaults. For the quarter ending March 31, 1989, 10,545 foreclosures were completed--this is substantially fewer than the 11,966 completed in the same quarter of 1988 (a decline of 12 percent). Foreclosure activity remains concentrated in the southwest. Our Houston, Denver, Waco, Muskogee and Phoenix offices handled more than 45 percent of all foreclosures during the second quarter of FY 1989.

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Once a default is reported to VA, outreach efforts are made to contact each delinquent homeowner in order to provide information on alternatives to foreclosure and to offer VA supplemental servicing assistance in avoiding foreclosure. VA is responsible for closely reviewing the holder's servicing of the account and follows up by attempting to contact the borrower by letter, mailgram, telephone or personal visits to the property. Once contact has been established, based on the facts in the case, VA personnel may offer financial counseling. They may intercede with the holder on behalf of the veteran in order to obtain forbearance or arrange a reasonable repayment schedule in appropriate cases. Also, VA is in contact with local agencies that provide assistance in finding jobs for borrowers, or aid with their daily subsistence needs or help in making direct mortgage payments. When appropriate, delinquent borrowers are given the telephone numbers or addresses of such agencies so that they may apply for benefits.

If no arrangements for reinstatement are made and the holder files a Notice of Intention to Foreclose, VA regulations require that foreclosure procedures cannot be started for 30 days, during which VA tries again to service the loan. Even after foreclosure has been initiated, supplemental servicing continues to explore every possibility to assist the borrower.

When our efforts to secure additional forbearance are unsuccessful, VA has discretionary authority to "refund"; i.e., to purchase a loan from the mortgage holder. VA considers whether refunding is in the best interests of the veteran and the Government in every case before foreclosure. When VA refunds a loan, it may be reamortized to eliminate a delinquency and the interest rate may be reduced up to 3 percent below the maximum rate for new VA loans in order to lower the monthly installment payments.

When a borrower has no realistic prospects for maintaining even reduced mortgage payments, VA will encourage a private sale of the home to avoid foreclosure. A private sale can be difficult to arrange if the property is worth less than the total amount owing on the loan, as is often the case in areas with depressed housing markets. In such a situation, VA may be able to offer assistance by using a procedure which enables us to compromise a loan guaranty claim. This procedure can be considered if the difference between the loan indebtedness and the purchase price is less than the amount of VA's maximum guaranty.

If a veteran finds a buyer who will purchase the property for its fair market value and the proceeds of the sale are applied to the existing indebtedness, a compromise agreement would enable VA to pay a claim for the difference between the sale price and the loan indebtedness. Under such an arrangement, the veteran would remain liable only for the amount of claim paid by VA, which should be considerably less than the claim payable if foreclosure occurs.

When a borrower is unable to cure the default, refunding is not appropriate, and a private sale cannot be arranged, VA considers approving the acceptance of a deed in lieu of foreclosure. If acceptance of the deed will be in the best interests of both the borrower and VA, then VA will approve it. If a deed in lieu of foreclosure is not feasible, the holder will generally proceed with foreclosure.

Termination of the loan is the responsibility of the mortgage holder. VA monitors the holder's actions and may establish a cutoff date for the accrual of interest and expenses on the account if foreclosure is unduly delayed. This serves to limit the guaranty liability of VA and the resulting indebtedness for which a veteran may become liable. Also, VA requires that the

loan account be credited with the net value of the property as proceeds of the foreclosure sale, except in no-bid cases where a maximum guaranty claim is payable and VA will not acquire the property after foreclosure.

During the first two quarters of FY 1989, 90,417 defaults were reported to VA. During the same period, 60,162 cures were reported and 22,160 loans were terminated. At the same time, VA accepted 535 deeds in lieu of foreclosure, refunded 209 loans and paid 123 compromise claims. Our field stations reported 81,014 personal supplemental servicing contacts with borrowers and identified 1,246 defaults which were cured specifically as a result of direct VA intervention.

Additional resources made available to VA for supplemental servicing have been concentrated in our Houston office, since that office has experienced the greatest number of defaults. These are the most challenging defaults to resolve due to the tremendous loss of jobs and decline in property values in the area. A pilot servicing project was set up in Houston in July 1988, and has been operational since August 1988. Under the pilot project, 10 additional FTE were dedicated to supplemental servicing and support activities. A portion of the servicing staff work an irregular tour of duty, on Saturdays and until 8 p.m. weekdays, in order to improve the likelihood of successfully contacting veterans.

Preliminary statistics for the first 8 months of the pilot project indicate that the enhanced servicing done by the additional servicing staff have been successful. The number of personal contacts with delinquent veterans was 176 percent higher than in the comparable 8 months 1 year earlier. Although defaults reported dropped 8 percent from the comparable time 1 year earlier, a comparison of defaults

cured for the first two quarters of FY 1989 with the first two quarters of FY 1988 (after the pilot program had been in operation for 2 months), shows that cures increased from 3,508 to 5,033 (43 percent). Foreclosures completed in the two quarter period have dropped slightly, from 3,218 to 3,176 (1.3 percent); however, since the average time from receipt of a Notice of Default to completion of foreclosure in Houston is approximately 9 months, it is still too soon to expect a noticeable impact in this area. We would also need to assess whether these higher cure rates were due to the enhanced servicing or other factors.

The final analysis of the pilot program will show whether personal supplemental servicing by VA provides a tangible benefit to veterans and is cost-effective for the Government.

The percentage of foreclosure cases in which VA pays the maximum claim under guaranty and does not acquire the property is often called the "no bid" rate. The no-bid rate has declined from its peak of 25.7 percent in the second quarter of FY 1988 to a 21.6 percent rate at the end of the second quarter of FY 1989.

In accordance with Public Law 100-198, proposed regulations were published on March 31, 1989, which will require VA, when we determine whether or not to acquire property after foreclosure, to exclude interest which accrues during periods of (1) VA-requested forbearance, (2) VA administrative delays and/or (3) bankruptcy. These regulations should further reduce the no-bid rate and increase the percentage of foreclosed properties acquired by VA.

In January 1989, we notified the Committee of our intention to consider inventory holding costs in the property acquisition

decision process. Including the Government's cost of borrowing funds to acquire properties, for the period they are held in inventory pending sale, will more realistically reflect the true cost to the Government of each decision to provide a loan holder the option of conveying a property to VA. This policy change has been recommended by VA's Office of the Inspector General and, in a draft audit report, by the General Accounting Office. It is intended to ensure that VA does not acquire foreclosed properties except when it is in the best interest of the VA to do so, and is expected to reduce VA's property acquisition costs in FY 1990 by $120-150 million. A proposed amendment to the VA regulations to accomplish this was published in the Federal Register for comment on March 31. We intend to publish this regulation in final before the end of July.

With respect to legislation scheduled to expire, we favor retention of the provisions of 38 U.S.C. § 1832 which established the no-bid formula. This legislation was intended to place the operation of the loan guaranty program on a sound economic basis by ensuring VA would only acquire properties when it appeared beneficial to the VA to do so. It has had a significant impact in reducing the percentage of foreclosed properties VA was required to purchase from 97.05 percent in FY 1983 to 76.5 percent in FY 1988. With the promulgation of the amendment to the regulations, which I mentioned earlier in my testimony, VA regulations will require that all of VA's costs and the Government's cost of funds are taken into account before a property is acquired. This should further reduce the percentage of foreclosed properties acquired by the VA and the related costs of operating the loan guaranty program.

We recognize that although the no-bid practice has saved VA millions of dollars by requiring lenders to share the risks of

foreclosure on VA-guaranteed loans, this practice has resulted in increased costs for GNMA's mortgage-backed security program, which securitizes over 95 percent of VA mortgages. GNMA incurs costs when its issuers (who are faced with having to advance funds to acquire properties as a result of the no-bid process) default on making the pass-through payments to investors of GNMA securities. It is GNMA who must make up the lost pass-through funds to the investors. Notwithstanding these costs, we believe the solution to this problem is not to restrict VA's use of the no-bid, but to ensure that each entity associated with VA property acquisitions--VA, GNMA, and lending institutions--fully share in the risks and costs of foreclosure. Until changes in risk valuation are made, we will work closely with GNMA to address the adverse effects of the no-bid on GNMA.

Mr. Chairman, I will now turn to the area of property acquisition and management. Acquired property sales activity reached a record high during FY 88 when 40,630 properties were sold. Sales outpaced acquisitions during FY 88 by 5 percent. Sales of 21,762 properties during the first 6 months of FY 89 indicate that sales this fiscal year may exceed last year's total by approximately 3,000 and may exceed acquisitions by 17 percent. Our inventory of acquired properties peaked during FY 88, and we have steadily reduced the inventory since March 1988, from 25,172 to 18,523, as of the end of March this year. The inventory of properties on hand 12 months or more reached 3,810 in July 1988, and was reduced to 2,527 by the end of March 1989. In addition, the number of foreclosed properties pending acquisition, an important indicator, has declined from 17,530 properties at the end of March 1988 to 14,859 properties at the end of March 1989, a decrease of 15 percent.

Property sales do not occur in an economic vacuum, and we attribute our achievements, in part, to favorable or improving economic conditions in many parts of the country. But the achievements are also attributable to a number of managerial initiatives taken by VA, such as:

- staff increases, overtime and contract labor
- increased use of personal computers and electronic bulletin boards
- coordination with broker advisory councils and task forces
- pricing flexibility, including discounts for cash sales
- paid advertising
- public bid openings (in use in Denver, Houston and Muskogee)
- expedited offer processing
- more sales broker training sessions
- setting property sales goals for VA managers.

The depressed real estate markets in Texas and Colorado continue to dominate our property management activities, as they did during FY 88. Currently, property management activities at our offices in Houston, Waco, and Denver account for a substantial portion of the national totals. Houston sales equal 21 percent of total U.S. sales, and our Denver and

Waco offices are each selling approximately 8.5 percent of the U.S. total. Acquisitions at these three stations comprise 28 percent of the U.S. total, and their "On Hand" inventory is 35 percent of the U.S. total. However, during the first 6 months of this fiscal year, these three offices sold almost 60 percent more properties than they acquired, and we believe their success will continue.

Our property inventory is still higher than I want it to be, but I think we can all be proud of the progressive strides that have been made in sales. We at VA remain committed to a maximum sales effort in order to reduce our need for Congressional appropriations.

Public Law 100-198 requires VA to sell at least 35 percent, but not more than 50 percent, of acquired properties for cash during Fiscal Years 1988, 1989, and 1990. Of the acquired properties sold in FY 1988, 46.9 percent were sold for cash, of the properties sold during the first 6 months of FY 1989, 50.3 percent were cash sales.

During FY 1988 we sold 21,140 properties with financing provided by VA. The 1 percent funding fee associated with these loans provided income of over $7 million. The funding fees collected on loans guaranteed in FY 1988 provided income of over $128 million. We believe that the authority to collect the funding fees on vendee and guaranteed loans, which expires on September 30, 1989, should be extended.

Under the Homeless Program, authorized by Public Law 100-198, a maximum Homeless Program discount of 32 percent off the minimum sales price was set. To date, the Homeless Program has resulted in a sale of a 4-unit property in Pittsburgh, Pennsylvania now providing shelter to 10 veterans. Other

Homeless Program sales are pending through our Denver and Seattle Regional Offices. We recently directed our field stations to contact eligible homeless providers to determine what aspects of the program, or of their own internal situations, precluded wider participation and what steps could be taken to facilitate and encourage additional sales under the program. Our stations reported contact with local offices of 967 community-based agencies and nonprofit organizations. More than half indicated that they are insufficiently funded to purchase real estate incident to their public assistance programs. Approximately one-third of the agencies and organizations indicated that they do not consider single family homes as suitable for sheltering the homeless, and prefer larger, multi-unit dwellings for this purpose. Other reasons precluding wider participation include:

- lack of eligible properties in certain geographic areas where homeless veterans are located
- no current need to acquire additional properties
- no homeless programs to assist primarily veterans and their families
- no current authority to purchase real estate incident to public assistance programs.

We believe that the VA Homeless Program, as presently configured by administrative directives, accurately reflects the statutory mandate in Public Law 100-198 and the otherwise expressed congressional intent for the program. The reasons that have been expressed to our field stations to explain the limited participation in the program to date

suggest that the causes are largely beyond VA's control, and are not readily addressed within the scope of Public Law 100-198.

The Rehabilitation Loan Program was implemented in May 1988, to provide timely support to new owners in their efforts to rehabilitate damaged or neglected properties which VA has not been able to repair prior to sale. Stations indicate that this measure has created interest among real estate brokers and purchasers of VA-owned properties. We have originated 41 loans for property repair incident to selling 17,081 properties with financing provided by VA. We believe that this program will be used more frequently after initial participants realize the benefits of their repaired properties. In view of buyer response to the Rehabilitation Loan Program, we believe that it should become a permanent technique to be used when marketing acquired properties.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or any member of the subcommittee may have.

STATEMENT OF STEVE A. ROBERTSON, ASSITANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
MAY 11, 1989

Thank you, Mr. Chairman, for the opportunity to comment on the management of certain aspects of the Home Loan Program administered by the Department of Veterans Affairs. As you are aware, this program has assisted over 13 million veterans to buy into the American dream of home ownership since its inception. As you are also aware, the program has recently needed appropriations of approximately $1 billion per year to keep it operating. Legislation has been introduced by the chairman of this subcommittee to correct the solvency problem over a reasonable period of time and hearings have been held on the bill. We look forward to helping this subcommittee move that bill.

To its credit, the Department of Veterans Affairs has assigned the Inspector General the mission of looking into the home loan practices in those areas of the country where special conditions exist, with a view toward correcting management problems where appropriate. We would like to comment on those problems and their proposed corrections.

The Denver Colorado Regional Office of the VA recently underwent an audit of the supervision of lenders practices by the VA Inspector General. The audit revealed that the loan guarantee staff permitted lenders to use less stringent underwriting guidelines which were, in fact, outdated for two months after new guidelines were issued. Additionally, reviews of loans that defaulted in three payments or less were not conducted in a comprehensive manner or were not completed at all. The results are lenders ignore or abuse the guidelines used by the VA to evaluate loans.

Four of the five lenders were not in compliance with the guidelines and thus approved fifty-five loans out of a total of one hundred twenty-seven in the sample of defaulted loans which should not have been approved. The loss to the program was

almost $3.5 million. The reasons given in the IG audit report were use of inaccurate information by the lender, lenders misrepresenting information used to underwrite the loans, lenders not following VA underwriting guidelines. You begin to see the scope of the problem.

We are not convinced that additional legislation or new regulations are absolutely necessary in this case. We are also not convinced that the problem is confined to Denver, Colorado. We urge continued oversight by this subcommittee and continued diligence on the part of the VA Inspector General to attempt to cure this problem. If continued scrutiny does not do the job, then additional regulation or legislation may be necessary.

Mr. Chairman, foreclosures continue to be a problem and one cause of the negative cash flow being experienced by the loan guarantee program. While the program was never designed to make money, it is not unreasonable for taxpayers to expect that money appropriated be spent wisely. This has not happened in all cases with the home loan program. Once again, the VA Inspector General, seems to have provoked a solution to a problem through a visit and an audit, but we wonder about why local VA home loan staff were not on top of the program in the first place. The location is Houston, Texas, and the source of the information is another VA IG report.

It is apparent from reading the report that inaccurate and/or incomplete information was being used to estimate the value of properties in order to make a foreclosure decision. In some cases, the value was just plain overestimated. In others, the value of comparable properties were not considered, and in some cases, the appraiser did not even attempt to gain entry to the property before filling out the appraisal form. In most cases, the value of the property was significantly less than the appraised value. The VA decision to acquire the property was based on faulty information. Thus, instead of owning a property which was acquired in the best interest of the government, the agency owns a property which should not have been purchased in the first place. The IG

estimates that corrections in these areas would save the program in Houston about 41.9 million annually.

The next problem in Houston is the management and maintenance of those properties purchased by the VA. Once again, the VA Inspector General turned up significant deficiencies. According to the report, contract property managers did not supply the services provided for in the contracts due to ignorance or just plain non-compliance with VA requirements. Perhaps more telling, regional office staff was not adequate to supervise the property management firms thus assuring compliance. We believe it is penny wise, and dollar dumb to cut FTEEs in positions where government assets are managed. The losses experienced by inadequate supervision of property managers far exceeds any savings generated by cutting personnel in the home loan staff of a regional office.

Once again, Mr. Chairman, we believe legislation is not necessarily needed in this area. While the IG report cited concerns Houston, the problem undoubtedly exists elsewhere to some degree. Oversight by the Congress and an aggressive IG inspection program by DVA will go a long ways to curing the problem.

Mr. Chairman we are aware of the proposal by the Department of Veterans Affairs to change the no-bid formula as contained in Title 38 CFR 36.4320. As the regulation is currently written, the VA uses the "net value" of the property as the determining factor in the decision to purchase a foreclosed property from a lender. The current definition of "net value" is the fair market value of the property minus the total cost incurred if the VA were to acquire and dispose of the property for property taxes, assessments, liens, property maintenance, property improvement, administration and resale. If the balance due the mortgage holder is less than the net value, the VA acquires the property. By law, the VA cannot acquire the property under any other circumstances.

The VA is now proposing new regulations which would factor the cost to the

government of borrowing funds into the formula. This cost of funds would not be used to determine the cost to a veteran of a default in which the veteran owes more on a home loan than the property is worth. In other words, veterans are excluded from the effects of this proposed regulation. However, to the extent that the proposed regulation persuades lenders not to participate in the home loan program, or to the extent that the proposal forces lenders to become so restrictive in their lending practices that veterans are precluded from obtaining loans under the program, we have a problem. No one knows how the proposal will affect veterans as it is currently. We would like to work with this subcommittee to insure that veterans still have the opportunity to participate in the program, and that the program doesn't fold by default.

As this subcommittee is aware, P.L. 100-198 expires in 1990. As the subcommittee is also aware, The Department of Pennsylvania American Legion has taken advantage of the provision of the law which allows the purchase, at a discount, of VA properties which have been vacant for more than one year to be used for projects involving the homeless. This provision of the law is not generally known across this nation. We believe that once the provisions become known, many more groups will take advantage of the law, and the homeless population will be reduced accordingly. We in The American Legion will do our best to publicize what has happened in Pennsylvania, in order that it might happen elsewhere. But we will need more time. Thus, we urge this subcommittee to consider legislation which will extend P.L. 100-198 until the year 2000.

We note that vendee loans for property rehabilitation purposes are being considered. This is an important first step in ridding the VA property portfolio of properties which have fallen into severe disrepair due to lack of VA supervision of contract property managers. Without pointing an accusing finger at the cause, we believe the solution to be funds made available to buyers who will renovate the property. We are reminded of the project in Baltimore, MD some years ago where properties which were severely distressed were sold to buyers for $1.00. Low interest

loans for renovation purposes were then made available to the buyers in order that repairs could be made and the properties made livable again. If the VA were to undertake such a program, we believe that significant numbers of distressed properties would be cleared from the VA property inventory and made available to veteran or other buyers who would not otherwise have an opportunity to own a home. We believe that ownership of a property provides the necessary incentive to maintain a property. We are aware that several questions need to be answered. For example, what happens to the equity in a home which has appreciated over a period of two or three years? How do we keep speculators from taking advantage of such a program? We look forward to discussions with you on making such a program viable.

Mr. Chairman, thank you for the opportunity to appear here today and express our views on this important program. We will be happy to answer any questions.

STATEMENT OF
RICHARD F. SCHULTZ
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
May 11, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 1.2 million members of the Disabled American Veterans (DAV) and its Ladies' Auxiliary, I wish to say how much we appreciate this opportunity to present our views relative to the operation of the Department of Veterans Affairs (DVA) Home Loan Guaranty Program.

We also wish to commend you, Mr. Chairman, for the timely exercise of your oversight responsibilities. As you know, from its inception in 1944 until Fiscal Year 1984, DVA's Loan Guaranty Program was basically self-sustaining, requiring relatively small appropriations over those years. By the end of Fiscal Year 1989, however, DVA's Loan Guaranty Revolving Fund will have required appropriations of approximately $3 billion since Fiscal Year 1984.

In an effort to determine the causes of the high cost of operating the Home Loan Guaranty Program, this Subcommittee and its counterpart in the U.S. Senate have been aggressively monitoring several areas which have negatively impacted upon the Home Loan Guaranty Program. In addition to the economic factors which have contributed to the solvency problems of the Loan Guaranty Revolving Fund, several other areas have been identified including: faulty and false appraisal practices; mobile home industries kickback scheme; equity skimming; falsification of credit reports; and poor appraisal practices.

While Congress has done well in responding to the home loan guaranty funding crisis through legislative initiatives, much remains to be done if we are to witness the return of a viable Loan Guaranty Program that provides a meaningful benefit to our nation's veterans in a cost effective manner.

Mr. Chairman, in your letter of invitation to appear here today, you listed several topics to be addressed at today's hearing. With your permission, I will now discuss DAV's views regarding some of these issues which continue to adversely impact upon the operation of DVA's Home Loan Guaranty Program.

While the economic conditions which caused the record high foreclosure rates have abated somewhat, we continue to see a ever increasing number of home loan defaults. Recognizing that much more needs to be done to assist veterans in keeping their homes by curing defaults, Congress enacted Public Law 100-198 which, among other things, required DVA to do more in the way of loan servicing.

As you know, lenders are required to perform primary servicing of veterans' loans and notify the loan guaranty division when a veteran is 90 days in arrears in mortgage payments. However, DVA's Inspector General's report entitled: "Audit Of Servicing And Terminating Defaulted VA Guaranty Home Loans," dated March 31, 1989, reveals, in over 90% of the sample cases reviewed, lenders did not report at least one of the three items of information required by DVA to assess what kind of servicing lenders are performing on delinquent loans. Further, the report reveals that 44.4% of the time lenders did not report any of the required information to the loan guaranty division.

In discussing the issue of loan servicing by lenders with regional office loan guaranty personnel, we find that their experience with lenders is that very little, if any, loan servicing is being done to cure home loan defaults. To be fair, however, we must also point out that the performance of the loan guaranty division in the area of loan servicing is less than stellar. In 151 (63%) of the 240 cases reviewed by I.G., either no contact was made with the veteran or an impersonal form letter was sent. Clearly, these actions are also insufficient.

Equally, or perhaps more disturbing, are I.G.'s findings that 63.9% of all terminated DVA loans contain avoidable losses. It is indeed tragic that avoidable delays in the resolution of defaults during 1987 resulted in $76.6 million of needless federal expenditures by the Loan Guaranty Revolving Fund. Had proper procedures been followed in a timely manner, many veterans and their families might still be enjoying the benefit of the Loan Guaranty Program -- owning their own home. Also, these precious federal dollars could have been used for veterans' programs desperately in need of adequate funding.

Mr. Chairman, this I.G. report also contained recommendations which include:

*reemphasizing to service staff the importance and the requirement for performing personal supplemental servicing;

*the development and implementation of a training program for VA loan servicing staff;

*insuring that supervisors perform required reviews of seriously defaulted loans and take the necessary action on these loans;

*enforcement of VA requirements on lender servicing and terminations by:

1. routinely applying the interest cutoff on all incurably default loans to developing regulations;

2. prescribing the primary servicing responsibilities of lenders;

3. exposing appropriate reduction to lenders' claims for cases in which the lenders' poor servicing, default reporting, or termination performance has result in increased claims cost and;

4. maintaining records on lender servicing in termination performance and, after appropriate warnings, applying appropriate sanctions for lenders who are not in compliance with VA requirements;

*determining which regional offices need additional service staffing, making a reliable estimate of staff needs, and taking action to meet these needs; and

*establishment of program priorities, goals, and specific objectives for improving loan servicing and terminations.

Suffice it to say, Mr. Chairman, that this I.G. report was very critical of DVA and mortgage lenders' servicing of veterans' loans.

Mr. Chairman, I have recently had the opportunity to visit two regional offices with sizeable loan guaranty operations. By and large, I was impressed with their understanding of the critical need to properly service veterans' loans. However, it is painfully apparent that without the resources to do the job

properly and efficiently, we can expect no meaningful improvement in the current operation of DVA's Loan Guaranty Program. For the most part, regional office directors and loan guaranty officers throughout the country are frustrated by the lack of resources necessary to do their job properly. Without adequate resources, we can expect many loan guaranty operations to do little more than pay the guarantee loan amounts to lenders and lip service to veterans in need of assistance.

On a positive note, however, we understand that DVA plans nationwide implementation of the current pilot program, Loan Production System (LPS), to automate a number of loan guaranty functions. Once fully operational, this computerized operation will free up loan guaranty employees to do a better job of assisting veterans rather than lenders. Clearly, loan guaranty activities will be enhanced once this system is installed nationwide.

However, we are extremely concerned by the projected loss of a considerable number of employees due to the implementation of LPS. We believe it very unwise to assume, as OMB apparently has, that fewer employees are required prior to an automated program being implemented.

Mr. Chairman, it is readily apparent that the loan guaranty operation is in desperate need of help. By simply spending more dollars to replace the Revolving Fund losses, we are not doing the job. A significant number of FTEE, better ADP capabilities, and proper training of employees responsible for loan servicing are urgently needed if we are to provide our nation's veterans with a viable home loan guaranty benefit.

Mr. Chairman, by all accounts, increasing FTEE in the area of loan servicing will save taxpayer dollars. As you are aware, in his request for supplemental funding for Fiscal Year 1989, Secretary Derwinski requested an additional 244 FTEE to perform loan servicing and property management activities. By adding these additional employees it is projected that approximately $85 million would be saved. If these projections are correct, and we have good reason to believe they are, it just makes good sense to add these critically needed employees necessary to save taxpayer dollars and keep our nation's veterans in their homes.

* * *

Mr. Chairman, just a few remarks on the subject of property acquisition and subsequent property management. As you know, each year the DVA acquires an ever-increasing number of properties. In 1988 there were 38,430 property acquisitions, an increase of more than 14,000 over 1984 acquisitions. While the number of acquisitions increases, available employees to manage the properties does not.

As an example of staffing shortages in this important area, we note that the ratio of the number of properties in DVA's custody to the number of employees in loan guarantees property management are nearly 200 to 1, while the national average in the private sector is 95 to 1. This is but another example of the unrealistic demands being placed on loan guaranty employees.

Also, we would suggest that DVA look at other alternatives to letting properties sit vacant for prolonged periods of time. Perhaps hard to sell properties could be rented instead of remaining vacant and deteriorating. By doing this, extra monies would be brought into the Loan Guaranty Revolving Fund. Also, we believe, properties in need of repair should have those repairs taken care of promptly. This would facilitate an earlier sale of these properties and bring more money into the Loan Guaranty Revolving Fund.

* * *

Mr. Chairman, one of the many important provisions of Public Law 100-198 permits the discounting of hard to sell DVA acquired properties to nonprofit organizations for use as a shelter for homeless veterans and their families. The DAV believes this to be a worthwhile use of these properties which would otherwise sit empty or be sold at bargain basement prices. We are aware, however, that little has been done to advertise this program and would hope that a more aggressive advertising campaign will be undertaken to make nonprofit groups more aware of this valuable program. We would also suggest extending this program beyond its current ending date.

Likewise, Mr. Chairman, the DAV is also supportive of the provisions of Public 100-198 which authorizes increased vendee loans to prospective purchasers of VA property by an amount necessary for rehabilitation purposes. We also understand that little has been done to encourage the use of this program and believe the DVA should be encouraged to make better use of this valuable marketing tool.

In conclusion, Mr. Chairman, we believe it is abundantly clear that much more needs to be done by DVA to service veterans' loans and monitor mortgage lenders -- who have primary responsibility for loan servicing. The I.G. report of March 31, 1989, points out several deficiencies in the area of loan servicing and provides many recommendations to correct these problems. Likewise, everyone (except, perhaps, OMB) recognizes that additional employees in loan servicing will generate tremendous program savings. Proper loan servicing and program savings go hand-in-hand.

This concludes our statement, Mr. Chairman. Again, we wish to thank you and the members of this Subcommittee for the opportunity to present our views on this most important issue.

STATEMENT OF

DENNIS M. CULLINAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

OVERSIGHT ON THE
DEPARTMENT OF VETERANS AFFAIRS
HOME LOAN GUARANTY PROGRAM

WASHINGTON, D. C. MAY 11, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the over 2.8 million members of the Veterans of Foreign Wars of the United States and its Ladies Auxiliary, I wish to sincerely thank you for inviting us to participate in today's oversight hearing on the Department of Veterans Affairs (VA) Home Loan Guaranty Program. We of the VFW are always gratified to take part in a discussion which addresses a program that has been so profoundly beneficial both to this nation's veterans and to the nation as a whole. As you know, the VFW is strongly committed to working for the maintenance and improvement of this invaluable veteran's program.

Under discussion today is the servicing of VA Home Loan Guaranty Program's loans as well as foreclosures, property acquisitions and subsequent property management. In this regard, I will place special emphasis on the VFW's position that the increase in program defaults during the last years is due largely to factors beyond the control of VA. Even so, we would also point to the fact that many of the home loan program's current woes are due to inadequate staffing and funding to properly service loans so as to avoid defaults and also to properly manage properties that VA does acquire due to foreclosures. The Loan Guaranty Program was and continues to be inadequately staffed to efficiently handle the default problem. This has been costly. Many defaults that could have been cured are not. Due to inadequate staffing, veterans are not provided with meaningful financial information and counseling. This results in more foreclosed properties VA must manage and maintain resulting in major increases in both program and administrative costs.

We also believe that, if staffing had been adequate in the past, counseling could have been provided that would have prevented some loans from going into default. We are convinced that the poor level of service now being provided to veterans whose loans are in default is directly caused by shortsighted (and costly) budget formulation that failed to provide resources that would have greatly alleviated, if not cured, the problem.

Thus the VFW, in keeping with the assessment of the loan guaranty program contained in the Independent Budget, recommends that staffing be increased by 140 FTEE over the FY 1988 actual staffing level for a total of 2,240 with a FY 1989 supplemental appropriation. We further recommend that the staffing level be maintained at 2,240 in FY 1990. This is in keeping with the recommendation that current services, as supplemented by our recommendation for FY 1989, be at least maintained.

Furthermore, it is a matter of record that the VFW supports increased and improved financial counseling both by VA and the banking community. It is our contention that all veterans should be made cognizant of the risks and burdens inherent in the purchase of a home. This kind of responsibility is not for everyone and we believe enhanced counseling activities should result in discouraging veterans who are not ready or able to take on such a burden from doing so. We also support VA's efforts to improve delinquent loan servicing. Lenders are now required to give the borrower written notice within 20 days after an installment is due and unpaid, and follow up utilizing personal

telephone contact. The VFW also supports the procedure which requires that if no repayment arrangements can be made, the lender must attempt a face-to-face interview with the borrower before beginning foreclosure. The VFW is on record as supporting a more timely reporting of delinquencies since this action would provide an incentive for borrowers to reinstate their loans before delinquencies becomes serious, in other words, it is our contention that both VA and the banking community should work in concert to counsel veteran borrowers and assist them in purchasing and then keeping their own homes.

With respect to the issue of VA home loan program property management, we believe improvement can be made in the manner in which defaulted properties are handled. It is of paramount importance to reduce the amount of time real property is held by VA. Real property is very expensive to hold since VA must pay taxes on all such property in its inventory as well as securing it against vandalism and weather. Although the improved economy should increase VA property sales, new and more aggressive marketing techniques could further enhance such activity. Another possibility would be for VA to sell some of its holdings directly instead of exclusively through brokers as is the current practice. Additionally, since a long holding time for certain properties may sometimes be forecast upon acquisition, it may be better to drastically discount them immediately in order to achieve quicker sales. Perhaps those holdings deemed most difficult to sell could be both drastically discounted and then sold without recourse so as to move them expeditiously while reducing VA's financial exposure. Finally, increased auctioning of such properties might also decrease holding time.

We have also been asked to comment on the one percent fee on vendee loans. This one percent fee is scheduled to expire within the next few years. Although the VFW generally strongly opposes any fees in conjunction with veterans benefits and entitlements, we do recognize the fact that many non-veterans avail themselves of VA vendee loans. In our view it is only fair that non-veterans benefiting from what is a quintessential veteran's program should make a contribution to the program for the privilege. After all, veterans utilizing the home loan guaranty are required to pay a one percent user fee, so, it only makes sense that non-veterans utilizing a VA vendee loan should at the very least have to make an equal contribution. Even so, we would caution against raising the vendee loan user fee since this would impair VA Home Loan Guaranty Program's ability to increase its portfolio of vendee loans. The VFW has argued strongly through the years in favor of the program increasing its portfolio of vendee loans since they generate collections in the form of principle and interest payments. Additionally, funds generated by assets sales enter the Loan Guaranty Revolving Fund as offsetting collections, which offset obligations and correspondingly outlays. This in our view, argues against any increase in the user fee on vendee loans since VA's effort to pursue this beneficial course would be impaired reducing sales and thereby resulting in greater cost to the government and, ultimately, to veterans.

The VFW has and continues to strongly support providing discounts on certain foreclosed properties to purchasers who would use them as shelters for homeless veterans. We would note that VA is now authorized to do just that, but participation in this program has been light. This, of course, is to be expected since this is a very new program, and providing a shelter for homeless veterans is a very complex and difficult undertaking. Even so, we strongly support the authority to provide discounted properties to groups and organizations who wish to care for homeless veterans and would recommend that this program be continued so that this segment of the veteran population may be properly and compassionately assisted. Finally, it is a matter of record that the VFW supports vendee loans for property rehabilitation purposes. If a home loan property is to be sold with VA financing it would seem logical that such financing, would also be available for property rehabilitation. This should enhance VA's ability to sell properties in its inventory which are in need of repair and renovation. There are people out there willing to acquire

such properties, but they must have access to the means of rehabilitating such dilapidated dwellings.

Mr. Chairman, once again I thank you for inviting the participation of the Veterans of Foreign Wars in this important hearing. If you have any questions or concerns, I will be more than happy to respond. You will note that a germane VFW resolution is appended to this testimony for your review. Thank you.

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Washington, D.C. 20005
202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

RONNIE J. WYNN

PRESIDENT
COLONIAL MORTGAGE COMPANY
MONTGOMERY, ALABAMA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Oversight Hearings on

The Department of Veterans' Affairs
Home Loan Guaranty Program

May 11, 1989

Mr. Chairman and members of the Subcommittee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Company located in Montgomery, Alabama. I am also President-Elect of the Mortgage Bankers Association of America.* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Department of Veterans' Affairs (VA) home loan guaranty program and on expiring provisions of the law. Several other issues also concern MBA, including action by the VA to change the current interpretation of 38 U.S.C. Section 1831(b), dealing with appraisers, and the proposed VA regulation to change the claim payment calculation of a foreclosed property's "net value" to include the cost of government borrowing.

MBA would not oppose an extension of the 1 percent funding fee for vendee loans and believes, at a minimum, the no-bid formula, amended in 1987 and expiring on September 30, 1989, should be temporarily extended.

NO-BID FORMULA

No-Bid Delays

The no-bid formula, scheduled to expire on September 30, 1989, was amended in 1987 to relieve lenders from unnecessary no-bid losses caused by delays in foreclosure sales where the delays are beyond the control of the lender. These cases include borrower bankruptcies, VA-requested forbearances, and delays caused by the VA. These amendments are yet to be implemented by VA regulations.

Proposed regulations were released on March 31, 1989, more than 15 months after the enacting legislation, the "Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987" (P.L. 100-198) was signed into law. They prescribe the cutoff dates for the accrual of interest on a veteran's debt in the above-specified cases.

P.L. 100-198 requires an adjustment of the foreclosure sale dates used to decide whether or not to acquire a foreclosed property and to compute the guaranty claim. The law directs the VA to establish earlier interest accrual cutoff dates for cases where foreclosure was substantially delayed by VA-requested forbearance, if using such date will result in a VA acquisition instead of a no-bid.

In its comment letter to VA Secretary Edward Derwinski, MBA expressed its concern about the cutoff date used in the proposed regulation for cases involving forbearance. The date is established as follows: "...the cutoff date for computation of the indebtedness shall be 30 days after the date the Secretary determines the liquidation sale would have taken place if there had been no such delay...." MBA does not believe that the cutoff date should be 30 days after the sale would have taken place absent the delay. Instead, the cutoff should be on the date the sale would have taken place had there been no delay. MBA recommends that for cases involving forbearance the language be revised to read, "... the cutoff date for computation of the indebtedness shall be the date the Secretary determines the liquidation sale would have taken place if there had been no such delay..."

MBA urges prompt implementation of the proposed regulations with the recommended change. The law made these amendments applicable to defaults on VA-guaranteed mortgages occurring 60 days after enactment. Seventeen months after enactment and with

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- o Mortgage Banking Companies
- o Commercial Banks
- o Mutual Savings Bank
- o Savings and Loan Association
- o Mortgage Insurance Companies
- o Life Insurance Companies
- o Mortgage Brokers
- o Title Companies
- o State Housing Agencies
- o Investment Bankers
- o Real Estate Investment Trusts

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fewer than six months until the law expires, lenders have not received any of the benefit that Congress intended from the no-bid relief provisions.

MBA believes that lenders should have the option of reopening no-bid cases occurring after February 20, 1988, the effective date of this amendment, where the new cutoff date would reverse the no-bid. Lenders have suffered losses the law was designed to prevent and should be offered the opportunity to recoup them.

Cost of Funds

MBA believes the no-bid formula should be temporarily extended and that it be amended to prohibit the inclusion of the cost of government borrowing in the definition of "net value." The VA has released proposed regulatory amendments that would revise the definition of "net value" of a foreclosed property to include the government's cost of borrowing funds.

The VA's plans to implement by August 1, 1989, regulations to include cost of funds in the no-bid formula calculation flies in the face of Congressional intent and exceeds the VA's statutory authority. The cost of funds amendment will also have a devastating effect on the VA's home loan program; the veterans who are entitled to use this program to purchase homes; and on lenders who have participated in the program.

Conflict with Congressional Intent. The "Deficit Reduction Act of 1984" (P.L. 98-369) codified into law the no-bid calculation formula used to determine when the VA will acquire foreclosed properties. As the conference report on the "Deficit Reduction Act of 1984" makes clear, Congress did not intend the no-bid formula to include "interest costs that the United States would incur if it were necessary for the Government to borrow funds for a particular acquisition." Furthermore, the report clearly describes the procedure for the VA to follow in order to change this policy: "notwithstanding the conferees position as stated above, the Administrator (Secretary) shall, not later than the February 1 preceding the fiscal year in which a proposed change would take effect, provide the Veterans' Affairs Committees with notice of this change." The current plan to implement cost-of-funds regulations on August 1, 1989, shows a flagrant disregard for the conferees' stated intent. The VA Committees should have been notified of this proposal by February 1, 1988 in order to comply with the notification procedure for FY 1989.

Exceed VA's Statutory Authority. Apparently, the VA has decided that the conference report language is non-binding and has chosen not to comply with the procedures specified by Congress. However, the definition of "net value" in Chapter 37 of Title 38, United States Code, Section 1816 is binding and, in attempting to amend this definition, the VA has exceeded its authority.

> The statute defines "net value" as: "the amount equal to (i) the fair market value of the property, minus (ii) the total of the amounts which the Administrator (Secretary) estimates the Administrator (Secretary) would incur ... for property taxes, assessments, liens, property maintenance, property improvements, administration, resale, and other costs resulting from the acquisition and disposition of the property." (emphasis added)

When comparing the proposed amended definition of "net value" with the definition of "net value" in the final no-bid regulations published by the VA on January 19, 1988, MBA notes several changes. In addition to changing the word "Administrator" to "Secretary" (in recognition of the new Department of Veterans' Affairs), the words "costs...incurred by VA..." are changed to "costs...incurred by the Government..." This proposed amendment affecting who is incurring the estimated costs is in direct conflict with the statutory language set forth above.

The Statute allows to be deducted from fair market value only those amounts that the Administrator (Secretary) would incur, not those amounts that the government would incur, as proposed in the regulatory amendments. The cost of government borrowing is not a cost incurred by the Administrator (Secretary) because the Administrator (Secretary) is not charged any interest costs for acquiring a foreclosed property. Therefore, under the statute, the cost of government borrowing is not permitted to be included in the definition of "net value."

Effect on Veterans and Lenders. The cost-of-funds proposal is another attack on the VA home loan program that will increase lenders losses on VA-guaranteed mortgages beyond reason. This program, which has helped almost 13 million veterans to purchase homes, cannot survive without the cooperation and participation of private sector lenders, primarily mortgage bankers. Private sector lenders' share of property acquisitions has already

increased from approximately 3 percent in 1984 to 24 percent in 1988, costing lenders hundreds of millions of dollars.

In fiscal year 1988, lenders lost approximately $200 million due to VA no-bid acquisitions. Mortgage bankers sustain an average loss of $20,000 on each no-bid. The income that mortgage bankers receive from servicing VA-guaranteed mortgages is derived solely from the small servicing fee they receive. MBA surveys show that the average net income that a mortgage banker gets from servicing one loan for one year is $35. The loss sustained on one no-bid effectively negates a mortgage banker's income from servicing 570 loans. The cost-of-funds proposal would shift an additional $20 million of the VA program costs to lenders in fiscal year 1989 and approximately $150 million more in fiscal year 1990.

Statistics and surveys compiled by MBA show that lenders are no longer willing to participate fully in the VA home loan program because of no-bid losses and because the rules are constantly being changed. The effects of the existing VA no-bid policy already have begun to hurt veterans.

In a January MBA 1989 survey, almost 70 percent of VA home loan program lenders said they would limit their participation in the VA home loan program if the regulations were changed to increase the number of cases where lenders were forced to acquire and dispose of the properties. More recently, in response to these proposed regulations, many MBA members reported that if the cost-of-funds proposal is implemented, they will be forced immediately to make further strategic efforts to minimize VA home lending.

Finally, Section 36.4300 of the VA regulations states that all regulations pertaining to the guaranty or insurance of loans to veterans "shall be applicable to each loan entitled to an automatic guaranty, or otherwise guaranteed or insured, on or after the date of publication in the Federal Register, and shall be applicable to such loans previously guaranteed or insured to the extent that no legal rights vested under the regulations are impaired." (emphasis added) The cost-of-funds proposal is an attempt to change the rules retroactively, substantially, and in a manner that will seriously impair the mortgage lending community that has provided mortgage credit to veterans. Since 1984, when the no-bid formula was codified into statutory law, lenders made decisions to lend mortgage money under the VA home loan program based on given rules and risk factors. Lenders should not be penalized by another retroactive rule change that forces them to absorb the additional losses of the cost-of-funds proposal.

MBA strongly urges Congress to prohibit this action. MBA believes implementation of these regulations will seriously impair a program that has successfully served the housing needs of millions of veterans since 1947.

APPRAISALS

MBA is also concerned about the impact of a recent VA interpretation concerning a Title 38 requirement on rotational selection criteria for appraisers. After five years of accepting appraisals completed by HUD Direct Endorsement lender staff appraisers that are reviewed and countersigned by HUD, VA has now stated that these appraisals can no longer be accepted because they were not performed by appraisers on a rotational basis. The net effect of this policy will be to require additional appraisals to be completed in those cases where a veteran buyer is found. This will create unnecessary delays and expense that will adversely affect the veteran. MBA respectfully asks your assistance in obtaining relief from this requirement.

REGULATIONS

The regulations for the mandatory underwriting of VA loan assumptions and for direct appraisals by automatic lenders have not yet been published by the VA. The VA is currently processing the mandatory underwriting of assumptions of VA loans because regulations are not available. Underwriting assumptions is a common occurrence in the mortgage lending industry, so there is no need for such a lengthy regulatory process.

Of vital interest to MBA is the fee that a lender will be able to collect for underwriting an assumption. A fee of less than $500 would be below the industry norm and would not adequately compensate a lender for the additional work, which is estimated to cost over $700 per loan. The Department of Housing and Urban Development (HUD) allows a fee of $500 for underwriting an assumption of an FHA loan.

MBA also believes delays on implementation of the direct appraisal provision are unwarranted. This provision permits appraisals to be sent directly to VA automatic

lenders for making a determination of reasonable value. The FHA has had a procedure for direct appraisals for a number of years that the VA could adopt.

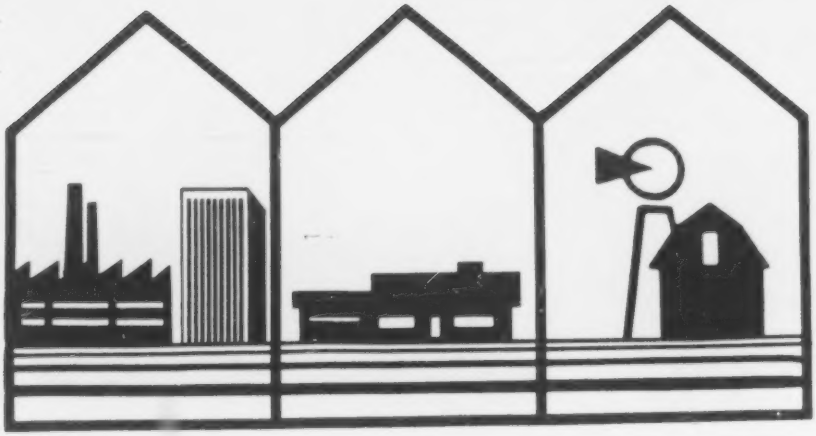
ADJUSTABLE RATE MORTGAGES

MBA urges that the VA be authorized to include adjustable rate mortgage (ARMs) in the home loan guaranty program. ARMs have become accepted by borrowers in the conventional mortgage market, and the Federal Housing Administration (FHA) has expanded its insurance program in include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation and other economic conditions that generally cause rates to rise.

MBA believes that VA ARMs should be authorized in a manner that would allow the Administrator to conform VA ARM interest rate adjustments to the FHA ARM program. Currently, FHA is authorized in insure loans with adjustment caps of 1 percent annually and 5 percent over the life of the loan. Because FHA and VA mortgages can be placed in the same Government National Mortgage Association (GNMA) pool when they meet GNMA's pooling requirements, standardization of both VA and FHA ARMs would facilitate greater volume and liquidity in the secondary market.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Although substantially lower interest rates in the last several years restored borrower ability to select fixed rate mortgages, ARMs continue to be a significant borrower option in the conventional and FHA markets in current higher interest rate environment. Veteran borrowers should also enjoy the option.

MBA appreciates the opportunity to testify before you today and we would be happy to answer any questions you might have.



Statement of the

NATIONAL ASSOCIATION OF REALTORS®

THE WORLD'S LARGEST TRADE ASSOCIATION

TO: HOUSE VETERANS AFFAIRS SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

SUBJECT: VETERANS HOME LOAN GUARANTY PROGRAM

DATE: MAY 11, 1989

STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE HOUSE VETERANS AFFAIRS

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

MAY 11, 1989

Introduction

On behalf of our 800,000 members, the NATIONAL ASSOCIATION OF REALTORS® appreciates this opportunity to present our view on the Department of Veterans Affairs Home Loan Guaranty Program. The Association continues to believe in the viability of the Home Loan Guaranty Program and pledges its support to work with the Subcommittee to ensure that the program continues to fulfill its objective of helping veterans buy and remain in their homes.

As requested, we are happy to share our comments on certain aspects of the DVA Home Loan Guaranty Program.

Property Management and Disposition

THE NATIONAL ASSOCIATION OF REALTORS® has been working with VA for 4 years to develop a cooperative effort through which REALTORS® and other real estate professionals can assist in disposing of their properties.

There are three components to this disposition program: real estate professional education; real estate community/agency relations; and disposition methods. In the majority of member states, the program has been successful in educating an increased number of real estate professionals regarding the proper procedures required for selling a VA inventoried home. We have found that many interested real estate professionals shy away form the VA's sales program simply because they are not well-informed. This cooperative effort has presented an opportunity for these individuals to learn the process and become involved in selling these properties.

In all cases, our members' staff and other real estate professionals have received cooperation, enthusiasm and interest from the regional VA offices. In some cases, our demonstration sites have established relationships with VA property management staff for the first time. In other areas, the program has served to improve and further existing relationships. Overall, we have found that each meeting has been successful in developing a better understanding between real estate professionals and VA property management staff. We have also found that simply initiating communication served to resolve what had been perceived to be long-standing problems between the two parties.

This program has been very successful in Northern California. Since that time, our program in Denver and Anchorage have developed to a similar level of effectiveness by providing real estate professionals with access to VA property information. Use of "bulletin boards" in regional VA offices is very helpful. Additionally, property descriptions, photographs, and details such as those used for private listings would greatly accelerate our members' showing of the property because of the time saved by the agent in not having to check out personally a property for which there is merely an address listing.

No-Bid Formula

The NATIONAL ASSOCIATION OF REALTORS® believes that to include cost of funds on legislation or regulation on the no-bid formula violates the stated intent of Congressional conferees. The no-bid formula was enacted in Section 2512 of the Deficit Reduction Act of 1984 (Public Law 98-369). In the Joint

Explanation Statement accompanying the Conference Report on that legislation (H. Report 98-161, page 1377), the conferees stated:

> [We do] not intend to change the VA's current policy of not considering interest costs that the United States would incur if it were necessary for the Government to borrow the funds for a particular acquisition.

The proposal to revise the definition of "net value", taking into account the Government's cost of borrowing funds as a determining factor, is of serious concern to our members. This proposal represents another attack on the VA Home Loan Guaranty Program that would increase lenders' losses on VA-guaranteed mortgages to a level that seriously threatens the program's survival.

Lenders' share of property acquisitions has already increased from 29 percent in 1981 to 23.9 percent in 1988. In FY 1988, lenders lost approximately $200 million due to VA no-bid acquisitions. The cost of funds proposal would shift an estimated $20 million more of the VA program costs to lenders in FY 1989, and an estimated $187 million in FY 1990.

Further, House Report 98-161 explicitly describes the procedure for the VA to follow in order to change its no-bid policy:

> If the Administration determines that a change to this policy is warranted, notwithstanding the conferees' position as stated above, the Administrator shall, not later than the February 1 preceding the fiscal year in which a proposed change would take effect, provide the Veterans' Affairs Committees with notice of the change.

The current plan to implement the cost of funds regulation by August 1 clearly disregards the conferees stated intent.

The NATIONAL ASSOCIATION OF REALTORS® further believes that legislation or regulations to include cost of funds in the no-bid formula calculation will adversely affect the VA Home Loan Program and lenders who have participated in that program. The effects of the no-bid policy are hurting our veterans. Lenders are no longer willing to participate fully in the VA Home Loan Program because of severe no-bid losses. Many have refused to continue in the program; others have imposed downpayment requirements and tightened underwriting. If the current proposals are implemented, more lenders will refuse to make VA loans, and others will continue to impose additional requirements.

The NATIONAL ASSOCIATION OF REALTORS® is opposed to this proposed change in the no-bid formula. The anticipated additional losses that would result from the cost of funds proposal would create additional difficulties for participating lenders, and could signal the termination of this entitlement program.

Conclusion

The NATIONAL ASSOCIATION OF REALTORS® is sympathetic to the Committee's desire to assist Congress in its goal of national deficit reduction, particularly with regard to those programs within the Committee's jurisdiction. We recognize, in particular, that the VA Home Loan Guaranty Program is currently operating at a substantial loss and is requiring additional appropriations. While the Association has never believed the Home Loan Guaranty Program was intended to be self-sufficient, we are in the process of exploring alternate funding mechanisms so this program can continue to flourish.

Thank you for the opportunity to submit our comments.

STATEMENT OF

THE NATIONAL ASSOCIATION HOME BUILDERS

before the

COMMITTEE ON VETERANS AFFAIRS

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

on

OVERSIGHT OF THE VA HOME LOAN GUARANTY PROGRAM

May 11, 1989

Mr. Chairman and Members of the Subcommittee:

We are pleased to submit our comments on a number of issues affecting oversight of the VA Home Loan Guaranty Program including, the recent problem which has arisen concerning the acceptance by VA of HUD conditional commitments based on Direct Endorsement lender staff appraisals. We are also concerned with imputed interest charges which raise the cost of funds on "no bids" and other property disposition proposals.

CONVERSION OF HUD CONDITIONAL COMMITMENTS TO VA CRVs

The Veterans' Department recently changed its policy on accepting HUD appraisals made by staff appraisers of a Direct Endorsement lender. This reverses a practice which has been in effect since the Department of Housing and Urban Development (HUD) Direct Endorsement Program began in 1983. While the VA will still accept appraisals from HUD, which are done by an appraiser from an approved list selected on a rotating basis, it

prohibits the acceptance of HUD conditional commitments of a lender's appraisal, if it is made by one of his staff.

Congress codified with P.L. 99-576 the policy of choosing an appraiser on a rotating basis for VA processed loans in October of 1986. HUD loans are processed using FHA procedures. The interagency agreement between HUD and VA obligates each Department to accept the other's determinations of value on a reciprocal basis. This has been in effect since 1981 and should not be altered. Reciprocity among government agencies concerning federal housing programs has been exceptionally helpful in speeding the process in obtaining home loans. Abrupt and retroactive changes in program guidelines such as this will discourage lenders from participating in the program. This will cause additional delays for veterans returning from the service to obtain a home loan.

Because of VA's policy change HUD has already sent a directive to its field offices to no longer accept Direct Endorsement lender staff appraisals for conversion to HUD conditional commitments if it is intended to be used for VA Loan Guaranty purposes. NAHB has written to the VA concerning this problem and we urge Congress to express its concern as well (Attachment A).

DIRECT APPROVAL OF APPRAISAL REGULATIONS

We also urge Congress to seek prompt implementation of the 1987 VA Housing Act (P.L. 100-198) which provides for direct

approval of appraisals by VA lenders. Timely appraisals of property are critical in the new home market and this legislation would substantially shorten the time involved to process VA loans. We have been informed by the VA, however, that its regulations will apply only to existing housing. And, to a very limited extent, to new construction. For example, only new units older than one year or new units covered with a ten year warranty would be included under these regulations.

Last year, our Board of Directors passed policy endorsing the immediate adoption of direct approval of appraisals by the VA. We urge you to seek immediate implementation of this program for new construction, as well as existing homes, which will be of particular benefit to new homebuying veterans in the marketplace.

"NO BIDS"

Proposed regulations submitted by the VA on March 31, 1989 have the effect of increasing the incidence of "no bids" (process whereby the lender, rather than the VA, acquires VA foreclosed property). The regulations add an imputed interest charge to the carrying cost of homes foreclosed by the VA. Currently, the VA reduces the fair market value of a home 10.6 percent to determine the net value of the property. The imputed interest charge is meant to cover the government's costs of borrowing money to acquire and dispose of these homes.

The Deficit Reduction Act of 1984 provides a formula which

requires the VA to pay off the loan guaranty or "no bid" if it is less costly to the government than acquiring the defaulted property. This occurs when the total indebtedness, defined as unpaid principal plus accrued interest exceeds the net value by more than the guaranty. The conference report on the 1984 act made it clear, however, that Congress did not intend for the "no bid" formula to include the Government's borrowing costs. To change this policy, the conference report emphasized the VA must notify Congress by February 1, of the preceding fiscal year of the proposed change. The March 31 regulations call for implementing the cost-of-funds regulations by August 1, 1989 and violates the conferees intent. This proposal would have had to be submitted by February 1, 1988 to be implemented in August. NAHB has written the Secretary of the Veterans Department expressing our views (ATTACHMENT B). The FY `90 proposal to impose imputed interest charges should not be accepted by the Congress either.

Mr. Chairman, we are addressing this issue because of the impact it is having on VA lenders. We are concerned that lenders will be discouraged from participating in the program if the "no bid" formula results in higher level of foreclosed properties to be disposed of by lenders. If lenders are reluctant to participate in the program, it becomes much more difficult for veterans to obtain loans and become homeowners.

We urge you to take action against proposals which add to the cost of funds by calculating an imputed interest charge when

the VA determines whether or not to acquire a foreclosed property. We also urge you to extend the "no bid" formula beyond the FY `89 expiration date.

DISPOSITION OF VA PROPERTIES
(Rent Foreclosed Properties With Option to Buy)

Because of depressed economic conditions at the time, our Board of Directors last May passed policy opposing bulk real estate auctions to dispose of VA foreclosed properties. We stated that auctions cause unnecessary devaluation of property throughout the marketplace and contribute to a downward spiral of additional foreclosures and property devaluations.

For example, when the Veterans' Administration sharply reduces home prices or sells them at auctions on a bargain basis, it reduces the value of the home next door and other properties in the surrounding area. A veteran, for example, who has $60,000 left to pay on his loan with no hope of recapturing this equity would certainly consider walking away. It makes no sense for him to continue making payments on his loan which may only be worth 50% of its original value due to the VA's "dumping" practices. This adds more homes to the VA's foreclosure portfolio, which compounds an already growing inventory problem in areas of economic distress. It also creates a domino effect of continued foreclosures.

In our resolution, we ask that alternative programs for the disposition and use of foreclosed properties be developed. We feel that renting properties with the option to buy is a workable

alternative. Everyone wants to buy a home for their family and this would be a means to provide for that possibility. It is workable if the buyer would have to meet standard qualifications for the purchase. It is even more viable if a portion of the rent is applied toward a reduction in the cost of the home.

Enacting a provision to allow renting of foreclosed properties with an option to buy would be a positive step in assisting families to become homeowners. It would counteract the VA's property disposition policy which has had the effect of severely lowering home values. Even though econom conditions have substantially improved in our oil producing states giving the VA these options will give the VA more flexibility in the future.

ADJUSTABLE RATE MORTGAGE (ARM)

We urge the Congress to support an adjustable rate mortgage (ARM) for VA homebuyers. We regret that this valuable mortgage instrument was dropped in conference when the 1987 VA Housing Bill was debated.

As you may be aware, last year's Housing Task Force report, "A Decent Place to Live" recommends updating the VA program to include an adjustable rate mortgage. The report emphasizes that an ARM is necessary to make the program fully responsive to market developments.

The VA is the only major market entity without an ARM, yet 60% of the loans made last year were adjustables. A veteran can

save as much as $100 a month in monthly payments. It assists veterans in purchasing a home in a rising interest rate environment and allows for an automatic decrease without refinancing if rates drop.

CONCLUSION

Mr. Chairman, the National Association of Home Builders appreciates the partnership that we have established with the Veterans's Department. Over the years we have worked well together to solve problems facing the housing industry. I know that we will continue our mutual concern to house veterans in the best possible manner so that they will make use of the loan guaranty benefit provided by Congress.

(ATTACHMENT A)

National Association of Home Builders

15th and M Streets, N.W., Washington, D.C. 20005
Telex 89-2600 (202) 822-0200 (800) 368-5242

Shirley McVay Wiseman
1989 President

May 8, 1989

Mr. Keith Pedigo
Director Loan Guaranty Service
Department Of Veterans Affairs
810 Vermont Avenue NW
Washington, DC 20420

Dear Keith:

Several of our members have expressed deep concern about VA's recent instructions prohibiting the acceptance by VA of HUD conditional commitments based on Direct Endorsement lender staff appraisals. This reverses a practice that has been in effect since the Direct Endorsement program began in 1983. We appreciate that it has been a long standing VA policy to select appraisers from a VA panel on a rotating basis when an application is made directly to VA. We also appreciate the fact that this policy was codified into law in October 1986. Notwithstanding both policy and law, VA has, since 1983, permitted the conversion of cases where the applicant has applied directly to FHA even though the appraisal may have been performed by a Direct Endorsement staff appraiser. This was entirely consistent with the 1981 VA/FHA inter-agency agreement in which the agencies agreed to accept each other's determinations of value on a reciprocal basis.

We do not understand what has prompted VA to change an established procedure. We know of no problem that has surfaced in the operations of FHA's Direct Endorsement program related to the fact that appraisals are performed by staff appraisers. We appreciate the atmosphere generated by losses in the Home Loan Guarantee program and we support your efforts to maintain the integrity of the origination process. However, abrupt, unexplained and retroactive changes in program guidelines will further discourage lenders from participating in a program that has served veterans so well in the past.

To our knowledge the VA/FHA inter-agency agreement to accept appraisals on a reciprocal basis is still in effect. This recent change appears inconsistent with that agreement. It also strikes us as inconsistent with the Congressional mandate that FHA and VA accept each other's processing on a reciprocal basis wherever possible.

We would appreciate an opportunity to discuss this matter with you.

Sincerely,

Shirley

Shirley McVay Wiseman

SMW/md

(ATTACHMENT B)

National Association of Home Builders

15th and M Streets, N.W., Washington, D.C. 20005
Telex 89-2600 (202) 822-0200 (800) 368-5242

Shirley McVay Wiseman
1988 President

May 1, 1989

The Honorable Edward J. Derwinski
Secretary of Veterans Affairs (271A)
Department of Veterans Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

RE: Proposed Regulatory Amendments
Loan Guaranty: Determination of
Net Value

Dear Mr. Secretary:

The National Association of Home Builders opposes proposed regulatory amendments that would revise the definition of "net value" of a property to the Secretary of Veterans Affairs by including the government's cost of borrowing funds.

This attempt to include cost of funds in VA's no-bid formula calculation is inconsistent with Congressional intent and will have the effect of persuading lenders not to participate in the VA Home Loan Guaranty program. As a result veterans who are entitled to use this program to purchase homes will be unable to do so.

The "Deficit Reduction Act of 1984" (PL 98-369) codified into law the no-bid calculation formula used to determine when the VA will acquire foreclosed properties. The conference report on the "Deficit Reduction Act of 1984" makes it clear that Congress did not intend that the no-bid formula include "interest costs that the United States would incur if it were necessary for the Government to borrow funds for a particular acquisition". The report goes on to describe the procedure the VA must follow in order to change this policy by stating: "notwithstanding the conferees' position as stated above, the (VA) Administrator shall, not later than the February 1 preceding the fiscal year in which a proposed change would take effect, provide the Veterans' Affairs Committees with notice of this change." The current plan to implement cost-of-funds regulations by August 1, 1989, is inconsistent with the conferees' stated intent.

The cost-of-funds proposal will unquestionably increase lenders' losses on VA-guaranteed mortgages to the point where many will simply refuse to make VA loans. This program, which has helped almost 13 million veterans to purchase homes, cannot survive without the cooperation and participation of private sector lenders. Private sector lenders' share of property acquisitions has already increased from approximately 3 percent in 1984 to 24 percent in 1988. In fiscal year 1988, lenders lost approximately $200 million due to VA no-bid acquisitions. It has been estimated that the cost-of-funds proposal would shift another $20 million of the VA program costs to lenders in fiscal year 1989 and approximately $150 million more in fiscal year 1990.

Many lenders are no longer willing to participate fully in the VA home loan program because of no-bid losses and because rules are often changed retroactively. The existing VA no-bid policy is already hurting veterans. Since the no-bid formula was enacted in 1984, VA's market share of fixed rate loan originations has been eroding steadily while FHA's share has increased. In 1984, the volume of VA activity was 74 percent of the FHA's fixed-rate loan activity. This percentage has declined every year since, so that in 1988 VA loan activity was only 30 percent of FHA's. It is clear that lenders are reacting to their increased potential liability when deciding whether or not to participate in the VA program.

Section 36.4300 of the VA regulations states that all regulations pertaining to the guaranty or insurance of loans to veterans "shall be applicable to each loan entitled to an automatic guaranty, or otherwise guaranteed or insured, on or after the date of publication in the Federal Register, and shall be applicable to such loans previously guaranteed or insured to the extent that no legal rights vested under the regulations are impaired." (emphasis added) The cost-of-funds proposal is an attempt to change the rules retroactively, substantially, and in a manner that will seriously impair the mortgage lending community that has provided mortgage credit to veterans. Since 1984, when the no-bid formula was codified into statutory law, lenders made decisions to lend mortgage money nder the VA home loan program based on given rules and risk factors. Lenders should not be penalized by another retroactive rule change that forces them to absorb the additional losses of the cost-of funds proposal.

For the reasons explained above, NAHB believes that implementation of the amendments would significantly reduce the availability to veterans of a program that has successfully served their housing needs since 1947.

Sincerely,

Shirley McVay Wiseman

Shirley McVay Wiseman

SMW/md

STATEMENT

FOR THE RECORD

BY

PARALYZED VETERANS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

OF THE

HOUSE COMMITTEE ON VETERANS AFFAIRS

CONCERNING

OVERSIGHT OF THE DVA HOME LOAN GUARANTEE PROGRAM

MAY 11, 1989

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America, we appreciate this opportunity to present our statement for the record concerning the operation of the DVA Home Loan Guarantee Program.

We wish to begin by expressing our gratitude for the Subcommittee's mark-up of H.R.1415 and amendments. The changes you have made to the original bill have resulted in improved legislation with no loose ends. We believe you have properly incorporated several meaningful provisions and clarified several others.

Your decision to waive the indemnity fee for those veterans who are rated 10% and 20% service-connected is consistent with waiver criteria under the existing program. We believe this provision, and the bill's language regarding Government contributions when fees are waived, properly addresses any remaining questions concerning the indemnity fee.

PVA also supports your stricter standard for those protected by indemnity by excluding any individual guilty of fraud, misrepresentation, or bad faith.

To do otherwise would be a disservice to the American taxpayer and the Home Loan Program.

We also strongly endorse your amendment to H.R.1415 which would change the accounting procedures by which the sale of loan assets are scored. Selling such loans with recourse should not be treated as "borrowing". Any profits that are made should be treated as collections and not losses. We fully agree that the Department should not be permitted to sell off the DVA's assets without recourse.

PVA is hopeful that the full Committee will move on the bills which you have marked up today. We will be glad to work with you, in any way we can, to help ensure their eventual passage.

Regarding the operation of the existing DVA Home Loan Guarantee Program, there are numerous factors, in addition to economic conditions, that negatively affect the program. Improper appraisal techniques, equity skimming, insufficient training, and completely unacceptable delays in implementing laws mandated by the Congress to correct some of these problems represent some of the more significant factors.

We believe, however, that the area of loan servicing represents the most critical aspect of the program. We also believe that it is one area about which the Department can truly do something positive.

The lender and the DVA must, together, assist veteran borrowers when loans go into default. Obviously, when a default is successfully cured, it results in significant savings to the Government. Conversely, if the default can not be cured and the lender must terminate the loan, the DVA is responsible for reimbursing the lender for all or part of the lender's loss. As you know, the DVA is forced to acquire numerous properties in this process at great expense to the taxpayer.

It is therefore critical to the mission of the Veterans Benefits Administration that every effort be made to ensure that a delinquent borrower is counseled and made aware of alternatives to foreclosure. We believe that

significant management improvements and additional FTEE are necessary in order for VBA to accomplish this mission.

As a result of the Inspector General's recent report entitled "Audit of Servicing and Terminating Defaulted VA Guaranteed Home Loans" (March 31, 1989), it is apparent that the loan servicing provided by lenders and the DVA is entirely inadequate.

Although the increase in loan terminations has been brought on, in large part, by economic conditions, the sheer number of cases being processed by the DVA is staggering. In FY 1988 the number of loan terminations climbed to over 53,000 at a cost to the Government of $711 million. We believe many of these terminations could have been avoided had proper loan servicing been accomplished by lenders and the DVA.

Regarding lenders, the I.G. report states that in 90% of the sample cases, lenders failed to properly report servicing information to the DVA. In many cases, no information was reported at all. Obviously, in these cases the DVA has no way of knowing whether the lender has assisted the veteran in any way or whether supplemental servicing is in order.

The DVA must provide loan servicing on all defaults that have not been resolved by the lender. The I.G. report concludes that the Department falls far short of their responsibilities in this regard. Most significant was the DVA's failure to:

1. make personal servicing contacts - few such contacts were made and these were generally too late for servicing to be effective.
2. explore alternatives to foreclosure - such alternatives were not adequately developed in 85% of the sample cases.
3. enforce lender requirements for servicing and terminations - when lender performance has been unsatisfactory, the DVA has not been taking available sanctions to encourage better lender performance.

Other deficiencies within the DVA include evidence that suggests Loan Servicing Representatives (LSR) often assume defaults are incurable without providing loan servicing to the veteran and controlling DVA losses. The report further states that LSR's are not properly trained nor do supervisors perform required internal control reviews.

Mr. Chairman, your Subcommittee recently conducted a fact finding trip to the Houston Regional Office for the purpose of reviewing the loan servicing pilot program in operation there. As a result of PL 100-198, which required additional servicing, ten new employees were added to the loan servicing staff. After only five months, the pilot program has shown impressive results.

We believe the increase in the number of personal contacts with borrowers (7,680 contacted) will go a long way in avoiding foreclosures. The number of defaults that were cured also increased. Alternatives to foreclosure have been pursued in many cases and veterans have been able to re-work mortgage payment schedules and keep their homes. Most impressive is the estimate that these additional employees could save the Government up to $82 million next fiscal year.

The Government's investment in FTEE in the DVA Home Loan Guarantee Program will provide significant returns. It has been estimated that if an LSR prevents just two loans from going to foreclosure, that individual has offset the cost of his annual salary to the Government.

It appears obvious from the pilot program currently being conducted in Houston that additional FTEE would greatly enhance the success of the program nationwide and result in significant reductions in Government costs. There are many programs under the DVA's jurisdiction which would benefit by increased staffing levels, however, we know of no program that would yield such significant financial returns in such a relatively short period of time as the Home Loan Guarantee Program. We are encouraged by VBA's desire to increase the loan guarantee staff. This appears to be in stark contrast to their position on the number of FTEE required to deliver accurate and timely service to the beneficiaries of the Compensation and Pension Program.

Finally, we wish to express our continuing concern over the Department of Justice's apparent disinterest in cases involving fraud and equity skimming in the DVA's Home Loan Program. Far too many cases are not being prosecuted at the expense of the entire program. We encourage this Subcommittee to convey these concerns, which we believe you share, to the appropriate Congressional oversight Committees which have jurisdiction over the Department of Justice.

That concludes our testimony. We will be pleased to respond to any questions you may have.

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSE

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

JUL 7 1989

Honorable G. V. (Sonny) Montgomery
Chairman, Committee on
Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find the Department's responses to questions raised by Representative Dan Burton following the May 11, 1989, hearing on the home loan guaranty program. A copy of these responses has been provided to Representative Burton.

Sincerely yours,

Edward J. Derwinski
Secretary

Enclosure

cc: Honorable Dan Burton

QUESTIONS TO THE DEPARTMENT OF VETERANS AFFAIRS
SUBMITTED BY HONORABLE DAN BURTON
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HEARING ON MAY 11, 1989

Question 1: Is every delinquent homeowner who can be reached with reasonable effort being offered appropriate loan servicing to try to head off foreclosure?

Response: VA computer-generated servicing letters have been amended to include a detailed description of the various options available to VA, lenders and veterans which would assist veterans in reinstating their loans or avoiding foreclosure. These letters are sent to each delinquent veteran when a default is reported to VA by the lender.

Efforts are also made by VA to contact veterans personally to discuss these options. In FY 1988, there were 176,503 defaults reported and VA made 148,569 personal contacts.

In an effort to verify that additional contacts would have an impact on foreclosure avoidance, we have increased staffing in our Houston office, and are monitoring their defaults and foreclosures (the Houston Pilot Servicing Project). A review of VARO Houston's operations during the first eight months of the pilot program with the comparable eight months of the prior year is encouraging. Specific data is provided in our response to Question 4.

Question 2: How many loans were refunded in each fiscal year from 1985 to 1988, compared to the 209 this fiscal year for the first two quarters?

Response:

Fiscal Year	Loans Refunded
1985	635
1986	256
1987	217
1988	276

Question 3: How many deeds in lieu of foreclosure were accepted in each fiscal year from 1985 to 1988, compared to the 535 this fiscal year for the first two quarters?

Response:

Fiscal Year	Deeds in Lieu
1985	1,728
1986	1,620
1987	1,287
1988	1,224

Question 4: When is the Pilot Servicing Program going to be completed and will the Subcommittee be notified of the results?

Response: The Houston Pilot Servicing Project will be completed on July 31, 1989. The results of our analysis will be made available to all interested parties. Specific data showing results of the project through the second quarter of FY 1989 is provided below:

		8/87 - 3/88	8/88 - 3/89	% CHANGE
A.	PERSONAL CONTACTS	5,130	14,183	+176%
B.	DEFAULTS REPORTED	10,127	9,280	-8%
C.	DEFAULTS PENDING	16,012(3/31/88)	14,839(3/31/89)	-16%
D.	PROPERTIES ACQUIRED	4,739	3,013	-36%
E.	CLAIMS RECEIVED	5,308	4,014	-24%
F.	DEFAULTS CURED (excl. mfg'd. home loans)	(10/87-3/88) 3,508	(10/88-3/89) 5,033	+43%

Question 5: What impact on the "no-bid" rate is the proposed change to the VA regulations, including the Government's cost of borrowing, going to have and will fewer VA loans be made to veterans as a result?

Response: Based on our estimate for FY 1988, the inclusion of the Government's cost of borrowing in the no-bid formula would have resulted in VA's acquiring 2,622 fewer properties. This would have increased the no-bid rate from the actual rate of 23.9% to approximately 29.4% of terminations. For the first half of FY 1989, we estimate that VA would have acquired 1,224 fewer properties. The no-bid rate for this period would have been approximately 27.7% of terminations compared to the actual rate of 21.7%.

While the proposed amendment to our net value regulation to factor in the interest cost of funds will increase the number of VA no-bids in the short run, for the long term it is likely that a return to stability in major real estate markets may act to reduce the number of no-bids. We have also proposed amendments needed to implement Section 5 of Public Law 100-198. These amendments will, under specified circumstances, limit the amount of interest accrual on defaulted loans. The effect will be to preclude an increase in the account indebtedness, caused by a delay in foreclosure which is beyond the control of the loan holder, from creating a no-bid. This will afford additional relief from no-bids to loan holders. We are therefore confident that financing will continue to be provided to creditworthy veterans who have served their country and seek to take advantage of the loan guaranty benefit they have earned.

Question 6: Does DVA believe the proposed change in the no-bid formula is consistent with congressional intent regarding the no-bid formula and with 38 USC Section 1816?

Response: The proposal is consistent with the stated intent of the Congressional Conference Report on Public Law 98-369 "to maintain the effective functioning of the loan guaranty program and make its operation more economical and, thus, to help ensure that the program will continue to be able to fulfill its basic purpose of assisting eligible veterans to buy homes." The substantial operating shortfalls sustained by the program in recent years have required additional funding to keep the Loan Guaranty Revolving Fund solvent. Therefore, it is critical that VA accurately determine when property should be acquired to reduce costs and make the operation of the program more economical.

In making the determination as to whether or not property should be acquired, all potential costs of acquisition and disposition need to be considered. 38 USC 1832(c)(1)(C) requires consideration of specific expenses which would be incurred by the Secretary as well as other costs which would result from acquisition and disposition of a property. VA currently only takes estimated out of pocket cash expenditures into consideration, thereby ignoring the real cost to the Treasury of borrowing funds which are used to pay for VA's acquisitions. Amendment of the definition of "net value" in 38 CFR 36.4301 will rectify this omission.

Question 7: Will the new no-bid formula be applicable to loans already outstanding, or does it only apply to loans made after the effective date of the new regulation?

Response: The VA intends to make the effective date of the regulation August 1, 1989. The change to the no-bid formula will be implemented as soon as the regulation is effective and will be applied to all liquidation sales, regardless of when the loan was originated.

○